# FINANCIAL TIMES

Europe's Business Newspaper — THURSDAY JUNE 30 1994 — D8523A


## Hong Kong opts for democratic reform bill

Hong Kong legislators last night finally approved the democratic reform bill of governor Chris Patten, left, after almost two years of confrontation with China. The decision, by a margin of 32 votes to 24, came after a long tense debate in the colony's Legislative Council. China, which opposes Mr Patten's plans, made it clear before the vote that LegCo's deliberations would not affect its determination to hold fresh elections after Beijing resumes sovereignty in 1997. Page 18

**Greece wins Macedonia case:** The European Court refused to order Greece to end its trade blockade of the former Yugoslav republic of Macedonia. Greece imposed the embargo in February after a two-year dispute over Macedonia's name, flag and constitution. Page 3

**Rough diamonds make good:** De Beers chalked up record first-half sales of $2.58bn and hinted that sales have since been curbed. The *South African group's London-based* Central Selling Organisation accounts for at least 80 per cent of world trade in rough diamonds. Page 32

**Warning on terrorist funds:** Pirate videos are an important source of funds for Ulster terrorists, a senior Northern Ireland policeman said. A London conference heard that the terrorists make £1.5m a year from private video sales. Page 11

**Charter** shares jumped 51p to 714p in London after the diversified UK industrial group made a £390m ($592m) recommended offer for Swedish welding products concern Esab. The acquisition would more than double the size of the UK group. Page 19; Lex, Page 18

**Hafslund Nycomed,** the Norwegian group best known for its radiology products, is paying $150m for the diagnostic imaging business of US-based *Sterling Winthrop.* Page 19

**Blockbuster Entertainment,** US video rental group which owns 19.9 per cent of British video software developer Virgin Interactive Entertainment, is to take control of the company by buying a further 55 per cent stake from Virgin group owner Richard Branson and other shareholders. Page 19

**Germany's plans outlined:** German foreign *minister* Klaus Kinkel set out *a programme for* his country's six-month presidency of the European Union, which starts tomorrow. He insisted the plans went no further than other member states had agreed. Page 18; Search for a successor moves south, Page 2; Clarke enrages Euro-sceptics, Page 11

**Enterprise Oil** bought nearly 10 per cent of Lasmo's stock from its largest shareholder for cash. The deal, clinched in a raid timed to coincide with the opening of Wall Street, angered other shareholders who are only being offered Enterprise shares and warrants under the terms of the bid. Page 19; Lex, Page 18

**Hospital league tables published:** Britain's Department of Health published the first tables *comparing the quality of hospital services* in different parts of the UK. The tables give no guidance on whether some hospitals are offering better standards of medical treatment than others.

**Prince in air incident:** Prince Charles overshot the runway when landing his aircraft on Islay in western Scotland. The four-engined BAe 146 came to a halt at 90 degrees to the runway with at least one of the tyres burst. No-one was injured in the incident.

**Russian hijackers caught:** Forty hostages were freed after Russian police captured three gunmen who had held them to ransom near the southern city of Mineralniye Vody. All the captives were safe.

**Explosions wound 64:** Two explosions thought to be bombs wounded 64 people during a demonstration in the Algerian capital, Algiers, against Moslem fundamentalists.

**Fan fetches £28,750:** A fan signed by more than 80 composers and musicians,including Brahms, Tchaikovsky, Verdi and Elgar, sold for £28,750 – *a world record for a European fan* – at a London auction.

**STOCK MARKET INDICES**

| | | |
|---|---|---|
| FT-SE 100: | 2,946.3 | (+37.3) |
| Yield | 4.2 | |
| FT-SE Eurotrack 100 | 1,331.9 | (+4.07) |
| *FT-SE-A All-Share* | 1,473.24 | (+1.1%) |
| Nikkei | 20,481.80 | (-158.23) |
| New York: lunchtime | | |
| Dow Jones Ind Ave | 3,690.04 | (+20.40) |
| S&P Composite | 449.30 | (+3.23) |

**US LUNCHTIME RATES**

| | |
|---|---|
| Federal Funds: | $4\frac{1}{4}$% |
| 3-mo Treas Bills: Yld | 4.242% |
| Long Bond | $85\frac{7}{32}$ |
| Yield | 7.490% |

**LONDON MONEY**

| | | |
|---|---|---|
| 3-mo Interbank | $5\frac{3}{4}$% | (same) |
| Liffe long gilt future: | Sep $101\frac{11}{32}$ | (Sep $100\frac{13}{32}$) |

**NORTH SEA OIL (Argus)**

| | | |
|---|---|---|
| Brent 15-day (August) | $17.33 | (17.01) |

**Gold**

| | | |
|---|---|---|
| New York Comex (Aug) | $386.3 | (387.9) |
| London | $385.3 | (396.7) |

**STERLING**

| | | |
|---|---|---|
| New York lunchtime: | | |
| $ | 1.5465 | |
| London: | | |
| $ | 1.547 | (1.5466) |
| DM | 2.4482 | (2.4513) |
| FFr | 8.3979 | (8.3991) |
| SFr | 2.0614 | (2.0616) |
| Y | 152.65 | (154.985) |
| £ Index | 79.6 | (79.7) |

**DOLLAR**

| | | |
|---|---|---|
| New York lunchtime: | | |
| DM | 1.58535 | |
| FFr | 5.431 | |
| SFr | 1.33395 | |
| Y | 98.775 | |
| London: | | |
| DM | 1.5825 | (1.5849) |
| FFr | 5.4285 | (5.4307) |
| SFr | 1.3325 | (1.333) |
| Y | 98.675 | (100.21) |
| $ Index | 63.2 | (63.5) |
| Tokyo close Y 98.27 | | |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Austria | Sch32 | Greece | Dr350 | Lux | LFr65 | Qatar | QR13.00 | | |
| Bahrain | Din1.250 | Hong Kong | HK$18 | Malta | Lm0.60 | S.Arabia | SR11 | | |
| Belgium | BFr65 | Hungary | Ft185 | Morocco | MDh15 | Singapore | S$4.30 | | |
| Bulgaria | Lw25.00 | Iceland | IKr215 | Neth | Fl 4.00 | Slovak Rp | KSL50 | | |
| Cyprus | C£1.10 | India | Rs60 | Nigeria | Naira50 | South Africa | R12.00 | | |
| Czech Rp | CZK50 | Israel | Shk6.90 | Norway | NKr17.00 | Spain | Pta225 | | |
| Denmark | DKr16 | Italy | L3000 | Oman | OR1.50 | Sweden | SKr16 | | |
| Egypt | E£5.00 | Japan | Y500 | Pakistan | Rs40 | Switz | SFr3.30 | | |
| Finland | FM14 | Jordan | JD1.50 | Philippines | Peo50 | Syria | S£50.00 | | |
| France | FFr9.50 | Kuwait | Fils.625 | Poland | Zl 32,000 | Tunisia | Din1.500 | | |
| Germany | DM3.50 | Lebanon | US$1.50 | Portugal | Es225 | Turkey | L30000 | UAE | Dh12.00 |

# Channel tunnel express trains suffer further delay

By Charles Batchelor, Transport Correspondent, and John Ridding

The Channel tunnel has suffered yet another delay with the announcement yesterday that long-distance passenger services will not start before September at the earliest.

*Passenger services had been* expected to start in July following the launch of freight shuttle services in May and of long-distance container services at the beginning of this month.

The British, French and Belgian railways said the *additional* delay had been caused by the complexity of the testing and commissioning programme needed for the Eurostar trains. The trains – which will run between London, Paris and Brussels – cost £24m ($36m) each, and have been designed to run on three different national electrical power systems and four signalling systems.

Jean-François Bénard, managing director of SNCF, the French railway, said: *"The three net*works concluded that there could be no Eurostar opening during their summer schedules. It won't happen before the last Sunday in September."

Tests have been carried out in the three countries but there has not yet been intensive testing between the three capitals through the tunnel. "We need to do a lot of continuous running between the city centres," said European Passenger Services (EPS), the British partner in the three-nation rail consortium.

Eurotunnel, which owns and operates the tunnel, said the Folkestone-Calais shuttle would not suffer as long a delay, and the setback to the long-distance passenger services would not have a significant impact on its revenues. "The contract between us and the railway companies provides for us to seek penalties and covers at least part of the losses," it said.

However, Eurotunnel may have to further revise the financial projections updated for its £858m rights issue earlier this month.

The launch of passenger services still depends on Eurotunnel obtaining government approval for the tunnel and its operating systems. The company hopes to obtain approval by mid July.

According to the French railways, the failure to obtain government clearance for the start of passenger services was a factor in the delay. The intergovernmental security commission demanded new requirements for testing evacuation procedures.

Once Eurotunnel has obtained its licence for passenger services, EPS and the French and Belgian railways plan to step up their testing programme and start their marketing campaign.

## Dollar drops to postwar low against the yen

By Philip Gawith and Philip Coggan in London

**The dollar yesterday slipped to a post-1945 low of Y98.55 amid market uncertainty about the** ***implications of the appointment*** **of a socialist prime minister in Japan.**

Traders were unsure about how Mr Tomiichi Murayama, the new Japanese prime minister, would handle the US-Japan trade *talks. Concern was also* expressed about the Social Democratic party's more sympathetic attitude towards North Korea.

However, European bond and stock markets stood firm in the face of dollar weakness.

The fall in the dollar came in spite of an earlier fillip from overnight comments by Mr Lloyd Bentsen, *US treasury secretary,* saying that the US would not use the dollar as a tool of trade policy. In the most forthright defence yet of a strong dollar from a senior administration official, Mr Bentsen told a New York audience that "a stronger dollar is better for our economy and better for the world's economy".

Analysts said it was important this message was repeated by a broad range of senior administration officials, but stressed that it was only one component of a successful defence of the dollar. *Most agree that the Federal* Reserve will also have to raise US short-term interest rates.

Although the US currency remained weak, trade was not particularly heavy. Confused market conditions have driven many participants to the sidelines, and there are currently few signs of heavy speculation


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# Socialist is chosen to lead Japan's new government

By William Dawkins in Tokyo

Japan's parliament yesterday chose a 70-year-old socialist to lead a three-party coalition government dominated by the Liberal Democratic party, ousted last summer after 38 years of conservative rule.

Mr Tomiichi Murayama, leader of the leftwing Social Democratic party, becomes the country's fourth prime minister in a year and the first socialist to lead Japan for 47 years.

Mr Murayama was elected by 261 votes to 214 with the help of *the LDP, the socialists' tradi*tional enemy, in a second-round parliamentary showdown against Mr Toshiki Kaifu, a former LDP prime minister who broke ranks to stand against his old party.

Last night Mr Murayama pledged to push ahead with economic and political reforms. However, foreign ministry officials *warned that talks on* the US trade dispute are likely to be postponed because of his inexperience in foreign affairs. Mr Murayama is expected to travel to Naples next week for a summit of the Group of Seven leading industrial nations.

The White House said yesterday that President Bill Clinton looked forward to working with the new Japanese government. Asked how the US viewed a socialist in charge of Japan, Ms Dee Dee Myers, White House spokeswoman, said: "That's an internal decision that the Japa*nese have to make."*

However, the prospect of a continued impasse on efforts to curb Japan's trade surplus with the US contributed to another rise in the yen against the dollar. At lunchtime in New York, the dollar had fallen to Y98.65 after breaching the Y100 barrier on Monday.

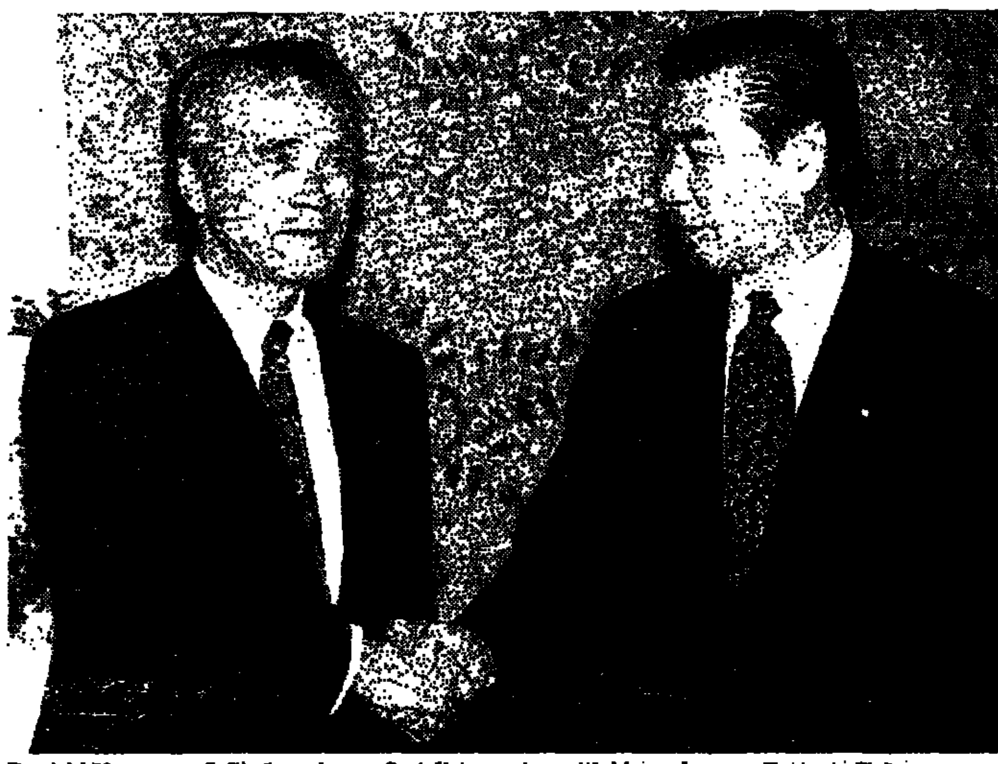
The LDP and SDP differ radically on most policy issues. Their unexpected marriage follows the collapse of the traditional structure of power started by the LDP's defeat in a no-confidence motion last June.

Mr Masayoshi Takemura, leader of the New Harbinger Party, a centre-left former LDP splinter group and the third member of the new coalition, *said: "A new round of political* realignment has suddenly started."

Mr Murayama sought an alliance with the LDP's president, Mr Yohei Kono, after a breakdown of talks with the outgoing prime minister, Mr Tsutomu Hata. Mr Hata resigned with his minority coalition on Saturday, two months after taking office, rather than face a no-confidence vote put forward by the LDP with SDP support. The SDP and the coalition were deadlocked on proposals to reduce income tax and raise consumption tax.

"I was struck by Mr Kono's sincerity. The political turmoil requires this kind of sincerity and I am sure I will meet your expectations," said Mr Muray*ama. Mr Kono promised to give* the SDP full support to "try to help Japan's politics progress." They are expected to form a cabinet today, in which the LDP is likely to take most senior seats.

Mr Morihiro Hosokawa, former prime minister, condemned the new coalition as "nothing less than collusion". The LDP's Mr Kaifu left his party just before the vote and won the backing of the former coalition. Between 30 and 40 LDP members also *rebelled against their party to* support Mr Kaifu.



Tomichi Murayama (left), Japan's new Socialist premier, with his predecessor Tsutomu Hata *Picture Reuter*


Fourth government in a year, Page 4


## Arafat set to make surprise visit to Gaza Strip

By Julian Ozanne in Jerusalem and Roger Matthews in Tunis

Mr Yassir Arafat, who took the Palestinian cause from an armed guerrilla struggle to a negotiated peace with Israel, was yesterday set to make a historic return to his homeland.

Mr Arafat's planned visit to the Palestinian-ruled Gaza Strip at the weekend will be an emotional moment for the 2m Palestinians in Gaza and the West Bank and the 4m in exile as refugees. It will symbolise the right of Palestinians to return home and affirm the Palestinian aspiration to an independent state.

In a surprise move characteristic of the veteran PLO leader's theatrical style, Mr Arafat decided yesterday morning that *he wanted* to visit the Gaza Strip for three days beginning tomorrow. The decision came after weeks of hesitation.

The hasty decision, made by Mr Arafat alone, left Israeli and PLO officials in a state of shock and last night it was unclear whether Mr Arafat would arrive tomorrow, on Saturday or Sunday. Mr Yitzhak Rabin, the Israeli prime minister, was last night holding emergency talks with senior ministers and security officials to decide whether to allow Mr Arafat to arrive tomorrow via the Israeli-Egyptian Rafah border crossing.

Israel has long maintained that Mr Arafat should give two weeks'


Continued on Page 18


# Tapie faces tax probe after dawn raid on his Paris home

By David Buchan in Paris

Mr Bernard Tapie, the Marseilles businessman and MP, was brought before a magistrate by police at dawn yesterday to be put under investigation for fraud and tax evasion concerning his yacht.

In the latest act of France's most watched politico-judicial soap opera, the police swooped on Mr Tapie's Paris mansion at 6.05am, five minutes after the earliest hour at which they are *allowed to enter private houses,* and were greeted by a string of invective by Mr Tapie, whose French parliamentary immunity against prosecution in this case was removed by the National Assembly on Tuesday evening.

After being first taken to a police station to be charged with "insulting representatives of the law", Mr Tapie appeared before *Mrs Eva Joly,* an investigating magistrate. She placed him formally under investigation and released him after impounding his passport and identity card and confining him to France until July 18.

This is the day before Mr Tapie *is due to be sworn in as a new* Euro-MP, granting him fresh parliamentary protection. Mrs Joly is understood to have feared that Mr Tapie might leave the country until July 19 to cover his temporary lack of immunity.

*The latest allegations against* Mr Tapie relate to ACT, a company ostensibly set up to manage his yacht, the four-masted 73-metre Phocéa, as a commercial enterprise. Investigators allege Mr Tapie systematically failed to bill ACT *properly for his use of* the yacht, thereby artificially increasing ACT's deficits which Mr Tapie used to decrease his own tax liability. As a result, the French tax authorities accuse Mr Tapie of underpaying his 1989-91 taxes by FFr12.4m ($2.2m).

The other main allegation concerns a FFr80m loan by a Crédit Lyonnais subsidiary in 1992 to ACT, *of which FFr55m* is alleged to have been funnelled to other Tapie companies, with FFr9m going to increase Mr Tapie's stake in the Olympique-Marseille football club.

On Tuesday, Mr Tapie went before the National Assembly to *deny "any deliberate action on* my part" to defraud the French tax authorities. But French deputies voted by 462 and 465 votes to 10, to remove his parliamentary immunity on the charges.

The vote came after Mr Tapie *sought to raise the political* stakes. Warning his colleagues of a backlash from the nearly 2.5m people who had voted for his "Energie Radicale" list in the June 12 European election, the leftwing populist politician said *that "if you agree to remove my* immunity, it is to some extent your own immunity you would be removing".

French deputies are only covered by immunity during parliamentary sessions, and the assembly's regular *summer session* ends today. But European parliamentary immunity is full-time, once it starts. However, the Strasbourg assembly's lawyers admit there is a "grey zone", never tested, as to when this immunity begins – either on the formal proclamation of election results on June 16 or when MEPs are sworn in on July 19.

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# Bonn to seek new EU deal for eastern Europe

By Quentin Peel

Germany will push for a new deal for the emerging democracies of central and eastern Europe during its six-month presidency of the European Union, including more measures to open the EU market and to promote closer political co-operation.

The aim is to help all the emerging democracies with practical measures for the whole transitional period leading up to eventual EU membership.

At the same time, the main German themes of the coming six months will be making Europe relevant to its citizens, and deregulation of the labour market to create more jobs, combined with strict financial discipline to keep spending under control.

Mr Klaus Kinkel, the German foreign minister, yesterday spelt out a cautious programme for the presidency, which begins tomorrow, insisting that it went no further than what was agreed by all the other member states.

"We will do everything in our power to promote the cause of Europe in this limited period," he told the German Bundestag in Bonn. But he added: "The German image of Europe is identical with that of our partners." He laid the greatest stress in his presentation on the German desire to bring central and eastern European states ever closer to the EU.

"If there is one special foreign policy responsibility of Germany in the light of its history, it is that the Europe which we are striving towards should be built together with the new democracies of east and central Europe," he said.

He said new proposals would be presented to the EU summit in Essen in December to give concrete form to "getting through the difficult transition phase in which the reforming states find themselves up to the point of accession. "Further market opening and closer political co-operation (even before accession) are at the top of the list."

The German thinking is in line with European commission plans, with Sir Leon Brittan, UK commissioner, planning to put forward a new report on faster trade liberalisation in the autumn. He will also propose a common competition policy over a three-year period.

Mr Kinkel said Germany would be pushing also for closer co-operation on crime prevention, and seeking to turn its Franco-German initiative to combat racism into an EU-wide strategy in time for Essen.

# Search for successor to Delors moves south

By Lionel Barber in Brussels

The hunt for a successor to Mr Jacques Delors as president of the European Commission is shifting to the south, with three names prominent on the diplomatic circuit: Prime Minister Felipe González of Spain, Prime Minister Aníbal Cavaco Silva of Portugal, and former Prime Minister Giuliano Amato of Italy.

The southern connection has surfaced in the wake of the bungled Franco-German campaign to push through Mr Jean-Luc Dehaene, Belgian prime minister, at last weekend's European summit in Corfu. Two other northern candidates – Mr Ruud Lubbers, outgoing prime minister of the Netherlands, and Sir Leon Brittan of the UK – withdrew their candidacies last Saturday.

The attraction of Mr González and Mr Cavaco Silva is that they are experienced prime ministers. Mr González, particularly, would seem assured of winning the required unanimous support. Mr Amato, a trained economist widely respected for his role in steering Italy through its political upheavals, is said to be on the market for a top international job.

All three leaders would also lend Mediterranean balance to the Union as it tilts north and eastwards. Next year Austria, Finland, Sweden and Norway plan to join the Union, and German-led pressure to include the newly emerging democracies in east and central Europe is certain to grow in the next five years.

Mr González, a long-time favourite of Chancellor Helmut Kohl, has been under pressure for the past three years to throw his hat in the ring. But he has steadfastly refused on the grounds that it would undermine the Socialist government he has led since 1982.

Though he is a Socialist, he could be easily repackaged as a centrist on account of his government's programme of labour market reform and efforts at fiscal austerity. A French-speaker, he would also be acceptable to France.

In the early hours of Saturday morning, after Mr Dehaene won the first ballot, Mr González expressed regret at the failure to reach a consensus, believing that he would be called upon to run once again. But he told his summit colleagues that he did not want to leave Madrid for Brussels – a position he repeated to the Spanish parliament yesterday.

A German-inspired "draft Felipe" movement could start to roll if Mr Kohl sticks to his self-imposed deadline of July 15 to come up with a compromise candidate to replace his protégé, Mr Dehaene. Germany believes it is vital to present the Commission president designate to the new European Parliament when it holds its inaugural session on July 19.

Mr Cavaco Silva's strongest cards are his experience, his Christian Democrat credentials, and his economic track-record since he came to power in 1985. But Portugal holds elections in October 1995, and Mr Cavaco Silva's presence is viewed as vital to the ruling party's hopes of attaining a third consecutive absolute majority. Mr Kohl is also said to be ambivalent.

Mr Amato's name is understood to have come up yesterday in conversations between Mr Douglas Hurd, UK foreign secretary, and Mr Antonio Martino, the new Italian foreign minister.

His weakness is his connections to the corruption-plagued Socialist government of Mr Bettino Craxi, though he has remained untainted and above suspicion.

Mr Hurd and Mr Martino expressed confidence that the deadlock over the Delors succession could be broken. "It should be someone who is committed to European ideals, but at the same time who is committed to a dirigistic, centralistic, bureaucratic vision of Europe," said Mr Martino.

The European Parliament stepped up pressure yesterday to have a say over who should become the new European Commission president, urging talks with German Chancellor Helmut Kohl, Reuter reports from Brussels. Mr Egon Klepsch, Parliament president, was preparing to contact Mr Kohl to propose talks ahead of a summit planned for Brussels on July 15 on Mr Jacques Delors' successor.

An early task of the parliament, which meets on July 19, will be to approve the EU's new president. Ms Pauline Green, president-designate of the socialist group, said parliament must know the identity of the proposed president before it meets.

UK prime minister John Major (second right) in discussion on the Delors succession in the Downing St garden with Italy's foreign minister, Mr Antonio Martino (second left) and Mr Douglas Hurd, UK foreign secretary (far left) Reuter

## Grachev announces greater military presence in troubled north

# Russia increases Caucasus role

By John Lloyd in Moscow

Russia is establishing a large military presence in the Northern Caucasian region, the most unstable area in the country and one in which conflict is expected to spread.

General Pavel Grachev, Russian defence minister, made the announcement yesterday at the regional centre of Rostov on Don shortly after the resolution of the area's third hostage crisis in the past six months. Three armed men had held a bus load of 40 hostages and escaped with a reported $6m and a helicopter, but were captured in the autonomous republic of Chechnya.

Gen Grachev, in remarks to the Interfax news agency, said he was creating "an army capable of conducting combat operations", able to defuse large and small conflicts. If regional forces proved unable to cope, Russian troops would help crack down on "terrorist groupings" which have flourished in the region.

The Caucasus, with several autonomous republics providing a home for numerous, often mutually hostile, ethnic groups, has become in the past two years a hotbed of feuds and outbreaks of hostilities which are barely controlled.

The fiercest fighting has been across the Russian border in Georgia, where some 3,000 Russian peacekeeping forces have been deployed this month in the breakaway region of Abkhazia. They are already blamed by the Abkhazian delegation in Moscow for promoting the return of Georgian refugees who had committed "war crimes" against Abkhazia, which has declared itself independent.

At the same time, the Russian military continues to deploy armour in the region in excess of levels agreed in talks within the framework of the Conference on Security and Co-operation in Europe. This has caused fears of Russian expansionism, especially in Turkey, whose regional power had itself been expanding and which has several areas of potential tension with Russia.

Gen Grachev's announced initiative puts in doubt once more the ability of the military to live within a budget for 1994 of Rbs40,000bn, the sum agreed by the parliament last week when it passed the overall budget. It shows he is willing to use such incidents as the taking of hostages to again argue the case for the army's higher profile as a saviour of the nation from border and other conflicts.

President Boris Yeltsin, who is anxious to retain military support, has partially bowed to the generals' demands by saying that while their access to budget funds was limited, "off budget funds" would have to be created to satisfy their most urgent needs, and those of the arms-producing plants which are being starved of orders. One proposal has been to use the money gained from weapon sales abroad for expenditure on the military.

# European military aviation setbacks

By Bruce Clark, Defence Correspondent

Cross-border co-operation in defence aviation suffered a twin setback yesterday, with Germany going slow on the Eurofighter aircraft and the UK reaffirming its unwillingness to fund a new European military transporter.

A meeting of the German parliament's budget committee, the last before the summer recess, failed to approve the extra funds that were viewed as necessary to complete development work on the Eurofighter on schedule.

The committee did make a small award of about DM200m (£80.6m) to ensure that work on the project will continue in the coming months, but it did not earmark the funds needed to keep the project on schedule until the end of the decade.

The main reason for the delay is a dispute between the German Defence Ministry and Deutsche Aerospace, the German industrial partner, on how the extra development costs should be split between government and industry.

With German elections due in October, Germany's partners in the Eurofighter consortium – Britain, Italy and Spain – were understood to be resigning themselves to some delay in the project.

The four governments had until recently hoped to sign a memorandum of understanding this summer on completing the £30bn project.

In London, the Defence Ministry confirmed that it saw no reason to allocate public money to the development of the Future Large Aircraft, a project to meet Europe's strategic airlift needs which France and Germany are strongly backing. Britain is studying two options – the C130J made by Lockheed of the US and the proposed FLA – as it considers ways to replenish its ageing fleet of Hercules military transporters.

British Aerospace is urging the government to play a part in developing the FLA, arguing that that it could bring £12bn worth of work to the UK and create 7,500 jobs.

Yesterday's statement upheld the view London has taken since 1989, which is that there are no grounds for putting UK government money towards the FLA.

It said the government would keep open the option of buying some FLA "off the shelf".

Defence industry experts believe it might be possible for the UK private sector to come up with development funds – and therefore stake a claim to a share of the aircraft's production – if the government commits itself to buying some of the new transporters.

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# Bulgaria signs accord to reduce $8bn bank debt

By Theodor Troev in Sofia

Bulgaria and its London Club commercial bank creditors yesterday signed a debt reduction agreement which should re-establish the country's financial links. These have been blocked since 1990 when the Socialist government initially stopped interest and then capital repayments.

For the past four years Bulgaria has been cut off from western commercial financing and has had to rely on the IMF, the World Bank, and foreign aid.

The agreement provides for a 47.1 per cent reduction in Bulgaria's $8.1bn (£5.3bn) debt to a group of more than 300 commercial banks. Bulgaria's total foreign debt, including that to Russia and other former Soviet bloc countries, is $9.3bn.

The deal was signed by the finance minister, Mr Stoyan Alexandrov, and Deutsche Bank, as closing agents for the deal, Citibank, as fiscal agents, and the US Federal Reserve which will sell Bulgaria collateralised discount bonds. Representatives of 14 creditor banks arrived in Sofia for the signing and rest will sign in London and Frankfurt in July.

The deal calls for the restructuring of $3.8bn of debt. Of this total 12.4 per cent is to be reduced by buybacks, 60.5 per cent by collateralised discount bonds, and 27.1 per cent through front loaded interest reduction bonds (FLIRBs).

Parliament will have to ratify the deal by the end of July and Mr Alexandrov has been consulting leaders of the parliamentary factions to make sure they will back the deal.

Mr Peter Tils, first vice-president of Deutsche Bank, said the agreement was "a very good tailor-made package" for Sofia "I cannot imagine what will happen if the agreement is not ratified by parliament," Mr Tils added.

Earlier this week, however, leading economists from both the Bulgarian Socialist party, which currently dominates parliament, and the opposition Union of Democratic Forces, said that Bulgaria's economy would be unable to bear the debt service burden.

According to finance ministry sources $710m in up-front payments will be needed for the deal to be closed, reducing the currency reserves of the central bank to some $400m. The annual cost of the deal is expected to be just under $200m over the next seven years.

The World Bank and the IMF are expected to put up a special loan of $250m to help finance buy-back operations, but this is conditional on speeding up reform, including privatisation. Other priority areas for improvement are bankruptcy laws, banking supervision and a reduction in social assistance payments.

NEWS: EUROPE

EUROPEAN NEWS DIGEST

## France raises minimum pay

The French government yesterday announced that the SMIC minimum wage would be increased by 2.1 per cent, from FFr34.83 (£4.13) an hour to FFr35.56 (£4.19) from the beginning of July. The increase, in line with the legal formula for calculating the minimum wage, prompted an angry reaction from trade unions, which had been demanding an additional increase. The SMIC is at the centre of the debate about French labour market reform. An attempt by the government to change the system so that young apprentices could be paid less than the SMIC prompted nationwide protests in March and forced a humiliating climbdown by the government.

The big CFDT union federation, which had demanded an increase of 2.7 per cent in the SMIC, said yesterday that "once again, the lowest paid would not benefit from the same increase in purchasing power as the rest of French employees". Under the new rate, the 1.48m employees who receive the SMIC will be paid FFr6,010 a month for 169 hours of work. *John Ridding, Paris.*

## Athens balks at airline ruling

Greece is objecting to conditions proposed by the European Commission in return for approval of a rescue package for Olympic Airways, the loss-making state carrier. Athens believes the conditions would undermine a plan designed to return the airline to profit by 1997. Fresh talks are due to be held in Brussels next month. The Commission wants Olympic to drop its monopoly of ground handling operations at Greek airports immediately and allow two other airlines to offer competitive services.

Greece also objects to the Commission's requests that Olympic freeze its seat capacity while the three-year restructuring plan is in effect, and open up its profitable Aegean island routes to competition from 1998. The restructuring plan calls for writing off almost Dr500bn (£1.34bn) in accumulated debt and providing Dr53bn in fresh capital over the next three years. *Kerin Hope, Athens.*

## Swedish anti-EU camp grows

Opposition to joining the European Union has strengthened significantly in Sweden over the past month according to an opinion poll published yesterday. It underlined the difficulty facing the country's political leaders in their attempt to win acceptance of membership in a referendum on November 13. The poll, in the Gothenburg Post newspaper, showed opposition rising to 45 per cent from 40 per cent in a similar poll in May. Support also grew for the Yes camp, from 34 per cent to 37 per cent. But the worrying trend for EU supporters was the greater share won over by the No side from a narrowing pool of undecided voters, widening the opposition's lead. *Hugh Carnegy, Stockholm.*

## Bonn pushes green car sales tax

The German government is pushing the European Commission to back a proposal that would impose a sales tax on cars with heavy petrol consumption. Mr Klaus Töpfer, the federal environment minister, said he believed the German proposal – which would levy tax on new cars that consume on average more than five litres of petrol per 100km – was the best way to control CO2 emissions from cars. He said the European Commission had not yet signalled it would pursue the proposal, although Germany hopes to have gained approval from the environment ministers of the other member states by the end of its presidency. Mr Töpfer conceded that the proposal was unpopular in Germany where car makers make preponderently big-engined cars. On average, German cars consume 9-9.5 litres of petrol per 100km. *Emma Tucker, Bonn.*

## German post sell-off passes

A plan to sell off Germany's postal service, including the state telecommunications company, was approved by the lower house of the German parliament yesterday. The postal service is Germany's largest state-owned employer. Its three components – mail delivery, a banking system, and the telecommunications monopoly, Telekom – have 670,000 employees. The privatisation plans could still run into trouble. The opposition Social Democrats voted for the sell-off but vowed to block it in the upper house when it comes up for a final vote on July 8 if the government does not give adequate assurances to save jobs and benefits. Under the law, as of January 1 private investors could start buying stock in all three branches of the postal service. The government would hold a majority of shares in mail delivery for at least five years. *AP, Bonn.*

## New leader for Italy's CGIL

The CGIL, Italy's main union confederation long dominated by the left, yesterday elected Mr Sergio Cofferati, a leading member of the chemical workers' union, to succeed Mr Bruno Trentinas as secretary-general. Mr Cofferati, 46, will be the CGIL's youngest leader. He also breaks the tradition of selecting the leadership from the ranks of the powerful engineers. He takes over at a difficult time for the union movement, experiencing declining membership and a steady erosion of influence. More than half of the CGIL's 5m members are now pensioners. The confederation is under pressure to forge a closer ties, if not merge, with the other two main confederations, the CISL and the UIL. The three no longer reflect the old cold war division of the union movement when the CGIL was dominated by the Communists, the CISL by the Christian Democrats and the UIL by the Socialists and Social Democrats. *Robert Graham, Rome.*

## Berlusconi and RAI do battle

The new Italian government of Prime Minister Silvio Berlusconi yesterday decided to raise the stakes in its battle to gain control of the RAI state broadcasting organisation by pledging to remove the management. The RAI management was brought in last year to cut costs and end its political partiality but the new government has felt RAI to be prejudiced against it. The government was obliged yesterday to renew legislation that enabled debt-ridden RAI to keep operating but the cabinet made it clear it would only do this if there was an immediate management change. Management had earlier threatened to go to court and force bankruptcy, thus depriving the government control over its future. *Robert Graham, Rome.*

ECONOMIC WATCH

## German tool orders up sharply

German machine tool orders climbed by 14 per cent in the first quarter of 1994 and continued to experience double-digit growth in April, the VDW industry association said yesterday. Domestic orders rose 14 per cent and foreign ones 15 per cent. Without announcing an overall increase for April, the VDW noted that domestic orders exceeded levels of a year ago by 20 per cent. Foreign demand in the first quarter was particularly strong from the US, the former Soviet Union, China, Switzerland, Italy and France. The industry, which is slowly emerging from its worst post-war recession, saw its order backlog at the end of the quarter rise to 4.9 months from an average of 4.7 months for all of 1993. Capacity utilisation climbed to 76 per cent in March from a 1993 average of 71 per cent. *AP-DJ, Frankfurt.*

■ The Bundesbank said it allocated 14-day securities repurchase funds at this week's tender at a lowest rate of 4.96 per cent. This compares with last week's lowest accepted rate of 5 per cent. It accepted bids for DM63.2bn, mostly at a rate of 4.97 per cent.

■ The Belgian national bank yesterday cut its key central rate for money market lending by 0.05 of a percentage point to 4.95 per cent and lowered its regular overnight interest rate by 0.05 of a point to 6.45 per cent. It held its discount rate unchanged at 4.5 per cent and its emergency rate for overnight lending at 9 per cent.

# Legal move on Greek embargo fails

### European Court of Justice refuses Brussels an emergency ruling to help end Macedonian dispute

**By Lionel Barber in Brussels, Kerin Hope in Athens and Reuter**

The European Commission has lost its gamble to use legal pressure to force Greece to lift its crippling trade embargo against Macedonia.

In a setback for Brussels, the European Court of Justice has refused the Commission's request for an emergency interim ruling ordering the Athens government to end the blockade, EU officials said.

The ruling vindicates pro-Greek officials and diplomats who have been pressing for a political rather than legal solution to the crisis in relations between the Skopje government and Athens. The row centres on Greek complaints that the Macedonian name, flag and constitution amount to a territorial claim to its own northern province.

Because of the Luxembourg Court's lengthy procedures, it could take up to 18 months for a definitive judgment. By that time, the impact of the trade embargo against the Macedonian economy could be devastating, introducing new instability into the Balkans, according to Commission officials.

The Commission put its case against Greece at a court hearing two weeks ago held *in camera* under EU rules permitting such proceedings to take place in secret when they cover matters of international security. The Court had the power to order interim measures to halt the embargo if it considered that there was a risk of grave and irreparable damage. Its decision on an interim ruling was communicated to the Commission and to the Greek government only.

The Commission's role in the Macedonia dispute has been complicated by the dual responsibilities of Mr Hans Van den Broek, Commissioner for external political affairs.

Mr Van den Broek was in the forefront of those arguing for a legal case before the European Court of Justice in order to underline Brussels' role as the guardian of the treaty of Rome; but he was also acting as a political mediator between Skopje and Athens, alongside the US.

A senior Greek official said the Court ruled on the grounds that the Commission had been unable to show that the trade embargo had caused damage to the European Union, through its trade with Macedonia.

The official added that the Greek government would use the breathing space offered by the court ruling to renew diplomatic efforts to find a solution to its dispute with the Skopje government.

Athens justified its initial imposition of a trade embargo as a means of breaking the diplomatic deadlock with Macedonia – a high-risk move which alienated the majority of its EU partners.

Greece hands over the rotating presidency of the EU to Germany tomorrow. The trade embargo against Macedonia blighted its six-month tenure, though Germany may also be taken to the European Court if it carries out plans for a six-month ban on British beef on the grounds that it could contain "mad cow disease".

# Bond rates rise in Athens reflects instability

**By Kerin Hope**

Greece's Finance Ministry has signalled anxiety over meeting interest payments on government debt by sharply raising interest rates on today's issue of government bonds.

Interest rates on one-year treasury bills, the main instrument for financing a rising public sector deficit, jumped from 18.5 per cent to 21.5 per cent.

The rise underlines the government's difficulties in raising funds following last month's currency crisis, which was triggered by the abolition of short-term capital controls under EU single market regulations. This month the Finance Ministry must raise a total of Dr650bn (£1.7bn) to meet debt servicing charges.

To protect the drachma against a devaluation, interbank rates were raised to record levels, while interest rates on fixed-term repurchase agreements soared to more than 40 per cent.

Last month, investors rushed to buy a one-month zero-coupon bond offered at 27 per cent and a three-month treasury bill at 25.5 per cent, while the one-year bill at 18.5 per cent was ignored. This month, only six-month and one-year bills are being issued.

Though liquidity has started returning to financial markets as interbank rates decline, borrowing rates for working capital are still at more than 30 per cent.

Bankers predict that real interest rates on government paper will remain at more than 10 per cent, as the government borrowing requirement is projected to rise sharply later this year.

To meet interest payments from a debt rescheduling carried out two years ago, a total of Dr2,000bn must be raised in September and October alone. Total interest payments this year on government debt are estimated to equal 13.9 per cent of Greece's gross domestic product.

One banker said: "Such a big leap in rates on treasury bills, coming at a time when the government's stated policy is to bring interest rates down, indicates that financial markets are still very unstable."

Public debt, already equivalent to 110 per cent of GDP, is expected to rise to 116 per cent of GDP before starting to decline in 1997, according to the Economy Ministry. Because of the high inflation rate, which has edged up from 10.2 to 11 per cent, the Finance Ministry has not been able to extend the maturity of government debt. Issues of three- and five-year government bonds carry floating interest rates linked to that of the one-year treasury bill.

Amid clear signs of investor fatigue, there is growing concern among bankers that the Finance Ministry may be forced to undertake a partial rescheduling of the domestic debt later this year.

However, a rescheduling would affect debt held by Greek banks as part of their reserve requirements, rather than treasury bills in the hands of private Greek and international investors, analysts said.

## Tomiichi Murayama, a fisherman's son, is Japan's new PM

# Lifelong socialist takes charge

**By Gerard Baker in Tokyo**

Mr Tomiichi Murayama, Japan's fourth premier in less than a year, is a lifelong socialist, with no previous experience in a ministerial post.

The 70-year-old Mr Murayama became chairman of the Social Democratic party last September after the resignation of Mr Sadao Yamahana, who stepped down in order to take responsibility for the party's poor showing in the election that summer.

Mr Seishiro Fukuda, editor of the party newspaper Shakai Shinpo, described him at the time as a politician who had no distinct policy platform. "He is a harmoniser who will play a balancing role."

But his attempts to balance the opposing wings of his own party created little harmony for the coalition formed as a result of that election. The socialists repeatedly threatened to leave the government. They started out opposing the opening up of the country's rice markets and initially opposed the reform measures of the Hosokawa government.

In February this year, the uneasy truce between the socialists and their nominal allies in government threatened to break down completely when Mr Hosokawa tried to push through a sharp increase in consumption tax to offset cuts in income tax. The socialists' opposition forced the government to drop the plan.

The strains of office finally proved too much for the party in April when the new government of Mr Tsutomu Hata constructed a conservative grouping within the coalition.

Hours before the vote yesterday Mr Murayama was still involved in negotiations with Mr Hata. When these broke down he won the backing of most members of the LDP.

He takes office at the head of a government dominated by the LDP, which had been the conservative ruler of Japan for nearly 40 years and, until last night, the new prime minister's inveterate political foe.

A striking figure, tall and stooping with bushy eyebrows, Mr Murayama is a former trade union official. The fifth son of a fisherman from Oita prefecture in southern Japan, he attended Meiji University in Tokyo. He spent several years in local politics before being elected to the lower house of the Diet in 1972.

Tomiichi Murayama announces his candidacy for the premiership yesterday AP

# Fourth government in a year brings LDP back to power

### With an eight-seat majority, the new coalition may be even less stable than its predecessors, reports **William Dawkins**

The old order of Japanese politics last night took its revenge on the new, in a twist to the past year's dismantling of the traditional structure of power.

The three-party alliance of the rightwing Liberal Democratic party, the left Social Democratic party and the New Harbinger party, an LDP splinter group, is extraordinary by any standards.

The LDP and SDP were in government and opposition respectively for 38 stable years until the collapse of the LDP government just under a year ago.

Since then, Japan has had two coalition governments dedicated to sweeping away the old order, in which policies where made on the whim of LDP factions, in favour of a new power structure closer to the electorate. This morning, a puzzled electorate will wake up to find that the LDP, a creature of the old system, is back in the fourth government in a year.

The new coalition, with a slender eight-seat majority, may prove to be even less stable than its short-lived predecessors. In just over a week's time, at a Group of Seven summit, its prime minister, Mr Tomiichi Murayama, 70, will face US President Bill Clinton, who is anxious for evidence that Japan is moving to stimulate its convalescent economy. Yet Mr Murayama and his party are far out of line with the LDP on most issues, from defence to foreign affairs and tax.

But the force that drew the old enemies together is clear. Both the LDP and SDP are dominated by conservatives with large factions which are reluctant to accept economic deregulation and political reform, the mainstays of the previous two coalition governments' policies.

Both parties also fear that plans to change the present multi-seat constituency system into a mixture of single-seat and proportional representation will sweep away the support groups that kept them in parliament for nearly four decades.

Mr Murayama has recently called for a snap general election under the existing political system, before new electoral boundaries can be prepared for the new one, by autumn.

This could delay or even spell the end of political reform, officials of the former coalition fear.

Mr Murayama last night appeared to soften his stance and maintained that the new government would pursue political reform, a sign – though not a conclusive one – of sensitivity to the support for political reform among Japan's electorate.

The LDP and SDP are also united in their dislike for Mr Ichiro Ozawa, the former LDP secretary general who brought down the LDP government last June by leading a defection. The SDP's wish to take revenge on Mr Ozawa dates from his backing for the formation of a centre-right bloc in former prime minister Mr Tsutomu Hata's coalition in April. This excluded the SDP, causing it to storm out of the government. That deprived the coalition of its majority, making Mr Hata's resignation, last Saturday, a matter of time.

Mr Koichi Kato, a member of parliament from the LDP's powerful Miyazawa faction, acknowledged the former rivals' common interests last night when he said his party shared a common thread of history with the SDP. The breakdown of Japan's traditional political order had eroded their ideological differences, he said.

Mr Morihiro Hosokawa, the former prime minister who fought to push political reform through parliament earlier this year, saw it differently. "This collusion is the last struggle of two parties trying to stick to their logrolling politics that dominated Japan since 1955," he said.

Mr Jesper Koll, chief economist at SG Warburg Securities in Tokyo, described it yesterday as "a desperate marriage of the cold war warriors".

The marriage, however, will be under strain from today, when the LDP-SDP coalition is expected to try to form a cabinet, in which the numerically stronger LDP will demand most of the top jobs. Political analysts expect the LDP to push for Mr Ryutaro Hashimoto, a former finance minister and fiscal conservative, to return to his old ministry.

This will be controversial because Mr Hashimoto, like the mainstream of the LDP, supports plans for tax reform along the lines drawn up by the Finance Ministry, for a cut in income tax to be followed by a more than doubling of Japan's internationally low 3 per cent rate of sales tax. It was this very issue that forced the SDP to break off talks with the former coalition.

The SDP, which bitterly opposed the introduction of sales tax in 1988 and campaigns on a promise to ban the tax, will not accept his appointment easily and will find it even harder to accept a decision on raising tax.

The LDP and SDP were both internally divided before that made their grab for power last night. The drama may have shaken their unity even further, by forcing reform-minded members of the LDP and SDP to vote against their old parties.

On the LDP side, they include Mr Toshiki Kaifu, a reform-minded former prime minister who broke away from his party ranks just 1½ hours before the parliamentary vote, in order to stand against Mr Murayama with the backing of Mr Hata's coalition.

Mr Kaifu had the support of two other LDP heavyweights, former prime minister Mr Yasuhiro Nakasone and former foreign minister Mr Michio Watanabe.

Mr Kaifu, looking impassive after his defeat, said he would now leave the party. The others may be considering leading another round of defections. The cost of last night's grab for power could, for the LDP, be very high.

# Japan's industrial output set to rise again after 32nd straight fall

Japanese industrial output fell 1.4 per cent in the year to May – or 0.8 per cent from April, William Dawkins writes. This is the 32nd month in which annualised production has fallen, a record downturn. However, the Ministry of International Trade and Industry forecast that it would rise by 1.9 per cent from May to June, to give a 0.3 per cent annualised rise for this month.

Quarterly figures suggest that production may have started to turn the corner at the beginning of this year, heralding recovery. It rose by a seasonally adjusted 1.5 per cent from the last three months of 1993 to the first quarter of this year and could rise by 1 per cent again in the second three months, said Miti. An official warned, however, that the yen's volatility against the dollar could upset that prediction. "There are still ups and downs," he said.

Inventories of unsold goods reached 17.8 per cent of annual sales in May, down 2.2 per cent over the year. "There was still a sense of excess" and industry needed to cut inventories still further, an official said. Stock levels are watched closely because an end to inventory adjustments has presaged a sustained rise in industrial output in previous recoveries.

# Keating renews effort to strengthen economic ties with Indonesia

**By Manuela Saragosa in Jakarta and Nikki Tait in Sydney**

Mr Paul Keating, the Australian prime minister, yesterday ended a three-day business promotion visit to Jakarta, reflecting his renewed effort to place Australian-Indonesian ties on a sound economic footing after a history of political differences.

Relations between the two countries have had a bumpy ride over the last few years following Australia's criticism of Indonesia's record on human rights.

Mr Keating's efforts to divert the focus to economic issues has become more urgent in the run-up to the Asia Pacific Economic Co-operation (Apec) summit in November, which will be chaired by Indonesia.

Two-way trade between Australia and Indonesia rose to $3bn last year, nearly twice its level of five years ago, and Indonesia is Australia's 11th-largest trading partner. While Mr Keating is keen to promote close business ties, Indonesia showed more interest in accelerating the pace at which its trade deficit with Australia is shrinking – to $566m last year from $833m in 1990.

Mr Keating's visit coincides with Australia's biggest trade exhibition ever – Australia Today Indonesia 1994 – which is being held in Jakarta.

Although Mr Keating would have preferred to adhere to economic matters, pressure in Australia forced him to raise the question of Indonesia's recent press bans. Last week the Indonesian government banned two leading magazines and a tabloid – Editor, Tempo and DeTik – in its most severe clampdown on political debate in years. The ban came after the government had pledged to foster more political openness.

Mr Keating said he expressed his regret at the press ban, which he said "appears to conflict or at least contrast with the openness generally occurring in the Indonesian economy", but did not give the impression the press ban was discussed in any detail.

This was Mr Keating's third visit to Indonesia in three years. On each occasion he has vowed to move away from discussing their relations in political terms. "No country is more important to Australia than Indonesia," he said during a visit in March this year. "For too long we were inclined to see both Indonesia itself and our relationship with Indonesia, in almost exclusively political terms."

In Australia, the Department of Foreign Affairs and Trade published a report on the Australian-Indonesian trade relationship yesterday, to coincide with the Jakarta trade fair and business conference. The report, including a series of articles by both Australian and Indonesian officials and academics came to no firm conclusions about the relationship's likely development, but some authors stressed that the countries' geographical proximity would be no guarantee of enhanced economic ties.

The report quoted Mr Richard Woolcott, head of the Australia-Indonesia Institute, as saying that "opportunities will not fall into our lap because we are neighbours", and pointed out that while Indonesia is a very large potential market for Australia, the reverse does not hold true. "Australia is geographically isolated, and must overcome any tendency to insularity to which this might give rise by linking in with rapidly developing regional transport and telecommunications networks," it suggested.

The report noted that in key areas, such as textiles, the trade relationship is still hampered by past protectionist policies. While Indonesia has developed its textile export industry, and is acquiring an increasing amount of cotton from Australia, one author said there could be "more mutually beneficial two-way trade as both countries move to greater liberalisation".

# Market – not central bank – to supervise NZ banking

### Customers, competitors and the press will be system's new watchdogs, writes **Terry Hall**

New Zealand's Reserve Bank is pressing ahead with a revolutionary free market approach to banking supervision.

The present system, under which the country's 18 licensed banks provide confidential information to the central bank to enable it to monitor risks, is due to be abolished early next year.

In its place comes "prudential supervision", which rests on maximum public disclosure. The information which had been provided to the central bank confidentially will instead be published each quarter, allowing the public – customers, competitors, the press – to act as watchdogs on a bank's affairs.

Locally incorporated banks will have to appoint independent directors, including the chairman, who will have to sign statements attesting to the truth and adequacy of risk management systems.

The new system is based on the principle that a well-informed market is the safest, best and least expensive way for a central bank to supervise banking operations.

Mr Murray Sherwin, chief manager of the banking system department of the Reserve Bank, says it is designed to ensure banks' directors take a greater interest in "getting it right".

He says companies will put in place good risk management systems rather than be forced to publicise bad news that might crop up in a particular quarter. "In future they'll think very carefully of their risks and obligations. And directors will be looking equally closely at their bank's skills and systems, fees, costs and internal budgets."

Mr Don Brash, governor of the Reserve Bank, says no system of banking supervision is perfect, but he is confident that the new one will reduce the risk of bank failure.

The proposals, due to become law in the first half of 1995 after mainly technical revisions of the final draft, should lead to lower compliance costs. Mr Sherwin says under the US system, for instance, regulatory costs might be 6 to 14 per cent of banks' non-interest expenses. "There is no reason why the costs should be so high."

The new system will build on principles used in establishing the prudential supervision framework over the past seven years. The system, introduced in 1987, kept regulation to a minimum, based on the concept that the incentive for prudent management should come from the discipline of a competitive market, and that the central bank should be the guardian of the stability of the banking system, not the protector of individual institutions or depositors. This "hands off" approach will mean that the central bank will mainly be concerned with the management of bank failures.

The 1990 Reserve Bank Act which gave the bank independence in setting monetary policy with the aim of securing low inflation – also set in place procedures aimed at ensuring market discipline as the best contributor to a sound financial system. The emphasis was on ensuring the best possible information circulated to prevent bank failure.

Mr Sherwin says the new system will offer a number of advantages. It will lead to efficiency gains. Requirements for banks to issue costly prospectuses for money raising will no longer be needed. Banks will no longer have to provide quarterly prudential returns to the central bank, norwill they have to make themselves available for internal reviews.

Mandatory risk limits on large foreign exchange exposures will be abolished. So will banking supervision fees.

However, banks must provide comprehensive quarterly disclosure statements, which could involve costly preparation. These must be audited at the half-year, which could also be expensive.

Mr Sherwin dismisses suggestions that New Zealand is introducing the new system because most of the banks are now overseas-owned. He says the logic of the new system is made even more valid because of the diversity of banks and the difficulties of applying rules that fit their varying activities.

In what is expected to be the final draft, the Reserve Bank backed down from its idea that all banks should have a credit rating, although all will be encouraged to get one. The credit ratings, likely to be obtained from Standard and Poors, Moody's or IBCA, are intended to be publicly displayed and will allow retail customers to assess a bank's financial health.

The Reserve Bank also decided against an initial proposal to set minimum capital requirements different from the international standards set by the 1985 Basle capital accord.

Brash: "no system is perfect"

Banks have generally welcomed the latest proposals although they have expressed concern that the plans still represent a radical step that might damage investors' perceptions.

A spokesman for one bank – who did not wish to be named because of the sensitivity of the issue – warns that international investors might be forced to "price in more risk" in their loans to New Zealand banks.

Banks also worry that some small retail customers may not understand the meaning of the credit ratings. Some are perturbed at the cost of providing quarterly detailed reports, while others say they have an open mind to see how the new system works in practice.

Dr Roderick Deane, a leading free marketeer who heads Telecom, New Zealand's biggest company, and has had a big influence on the new strategy, says the private sector should be left to monitor the performance of the banks.

"The bureaucrats can't do the job any better," he says.

# Row over state role in Israel Chemicals

**By Julian Ozanne in Jerusalem**

Israel Chemicals, the country's biggest chemical and fertiliser group and one of the nation's leading exporters, is at the centre of a row between ministers and government officials over the next phase of its privatisation.

Mr Micha Harish, the minister of industry and trade, has publicly criticised the Government Companies Authority, charged with selling state-owned companies, and called for the resignation of Mr Yossi Nitzani, its director.

Mr Harish's wants to make the company, of which the government holds 75 per cent, to move its headquarters from Tel Aviv to Beersheva, in the Negev desert. He said it was vital that large state-owned companies such as IC move there to encourage foreign investment in the development of the Negev.

However, when Mr Nitzani last week met New York-based investment banks to discuss the next phase of IC'sprivatisation the bankers were reported to have voiced concern about government interference in the management of the company.

They also expressed reluctance to become involved in selling shares in the US so long as the government continued to hold a majority stake. Investment analysts said the government had to make a clear statement of its timetable for selling shares in the company.

The government has decided to reduce its stake in IC to 28 per cent by the end of this year and plans to sell 15 per cent of the company to a private investor and 32 per cent by international public offering.

## NEWS IN BRIEF

### Pyongyang suspends propaganda

North Korea has suspended its usual loudspeaker broadcasts of propaganda against the Southern president at the truce line dividing the communist and capitalist states, writes Bradley Martin in Seoul.

The broadcasts attacking South Korean President Kim Young-sam, normally directed to southern soldiers along the border, halted at 5pm on Tuesday, just before the announcement of an agreement to hold the summit in Pyongyang next month.

Temporarily turning off its propaganda insults has been a standard North Korean measure whenever the two sides approach face-to-face meetings. The pattern has been for the insults to resume after failure of the talks. In recent months North Korean propaganda has denounced the South Korean president as a traitor. Seoul generally is more restrained in its broadcast characterisations of North Korean President Kim Il-sung.

### Guinea to send troop contingent to Rwanda

The West African state of Guinea yesterday said it would send a contingent of troops to join the UN's humanitarian operations in Rwanda. Reuter reports from Conakry.

The Foreign Ministry did not say how many soldiers would go or when. Nor was it clear whether the contingent would join French troops already in Rwanda or wait until a strengthened UN force is deployed.

So far only Senegalese soldiers have joined the French force, which has a UN mandate to bring humanitarian aid to survivors of Rwanda's genocide.

### Blasts rock Algiers demonstration

More than 30 people were injured, two seriously, yesterday when two explosions rocked a demonstration of several thousand people in central Algiers witnesses said, writes Mark Nicholson in Cairo.

The blasts occurred shortly after the start of the rally, called by the Rassemblement pour la Culture et Democratie, one of Algeria's main secular parties, just as the party's leader, Mr Said Saadi, was passing. A spokesman for the CDR said Mr Saadi was unhurt.

The CDR called the demonstration, which it said was tens of thousands strong, on the second anniversary of the assassination of Mohamed Boudiaf, the former president. No group has claimed responsibility for the blast, which the CDR said was "clearly an attack on Algeria's democratic forces". More than 4,000 people have died in political violence in Algeria since the cancellation of elections in 1991 led to intensified clashes between Islamic militants and the security forces.

### Yuill conviction quashed in Australia

Mr Brian Yuill, the former managing director of Spedley Securities, one of the high-flying Australian investment banks of the 1980s, has had a conviction for misusing company money quashed in the appeal courts, writes Nikki Tait in Sydney.

He had previously been sentenced to eight years in prison, after a jury found him guilty of seven offences under the state's companies code.

The New South Wales Court of Criminal Appeals yesterday ordered a retrial based on a possible misdirection by Judge Shadbolt, who heard the previous trial. The judge had made comments on the cost of such trials, and told the jury that if a unanimous verdict was not reached another trial would have to be held.

Mr Yuill, who had pleaded not guilty to all charges on which he was found guilty, still faces some additional charges relating to interest-free loans from another company which he controlled. These will be heard in August. No date has been fixed for the retrial on the first matters.

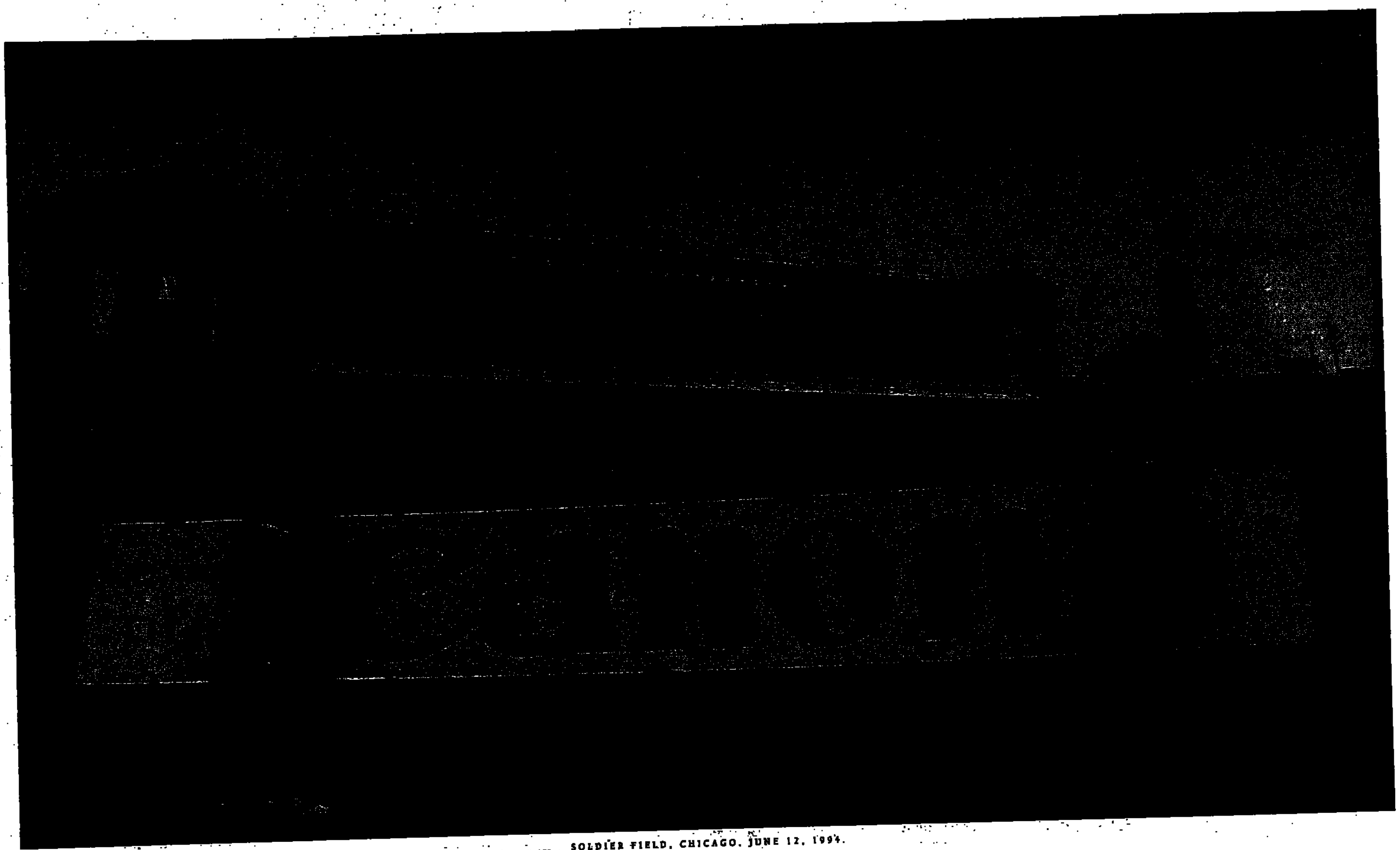
### Kuwait claims $95bn over occupation

Kuwait has claimed $94.8bn in compensation for Iraq's invasion and occupation and will submit more claims in coming months, Reuter reports from Kuwait.

Mr Adel Assam, general manager of the Public Authority for Assessment of Compensation for Damages Resulting from Iraqi Aggression, said the claims include one relating to damage to oil reservoirs and one accounting for loss of crude due to Iraq's torching of the oilfields.

Mr Assam said the authority made its latest submissions to the United Nations Compensation Commission in Geneva, filing up to $60bn in claims, some $41bn of which were on behalf of the Kuwait Investment Authority, the state's investment arm.

Of the rest, $3.2bn was on behalf of 15 government departments and agencies and about $14bn was on behalf of Kuwaiti companies.



SOLDIER FIELD, CHICAGO, JUNE 12, 1994.

**NEWS:** WORLD TRADE

# Gentle man in search of a tough job

## Nancy Dunne interviews Rubens Ricupero, candidate to lead the World Trade Organisation

Mr Rubens Ricupero looks more like a friar than a finance minister - particularly Brazil's finance minister on the eve of a potentially painful currency conversion.

A fringe of white hair springs from his bald pate. His demeanour is gentle. But the job he wants is one of the most formidable in the diplomatic world: the director-generalship of the still-to-be-launched and not-yet-defined World Trade Organisation, successor to the General Agreement on Tariffs and Trade.

Mr Ricupero first has an obstacle to overcome in his own hemisphere - the now formalised candidacy of Mexican President Carlos Salinas. The Brazilian has only complimentary things to say about Mr Salinas and stresses that his own candidacy is based on "different criteria" - an intimate, detailed knowledge of world trading rules.

"I know the traditions, the history, the people. I could go to work there tomorrow," he said.

Mr Ricupero has been finance minister since April, after holding a succession of increasingly visible diplomatic and political posts. He was ambassador to Gatt (1987-1991), ambassador to the US (1991-1993), and environment minister (1993).

During his time at Gatt he served as chairman of the Informal Group of Developing Countries, the Committee on Trade and Development, the Gatt Council and the Gatt Contracting Parties.

His candidacy springs from Geneva (where the Gatt secretariat is based), rather than Brasilia, said one of his aides. "He was asked to run; he did not seek this and there are many other things he can do."

### Brazil's finance minister claims an intimate knowledge of trading rules

Mr Ricupero's tact on the subject of Mr Salinas is remarkable considering what Brazilians regard as unsportsmanlike behaviour on behalf of the Mexican president at the Ibero-American summit in Cartagena, Colombia, two weeks ago.

It was only after the Brazilians left early on hearing of the death of their president's nephew that Mr Salinas' supporters moved and won an unofficial endorsement of the Mexican president's candidature, the Brazilians say.

It caused a diplomatic incident with Argentina which has now backtracked and supports Mr Ricupero.

Mr Ricupero's best shot could be as a compromise candidate from the developing countries in the case of a stand-off between Mr Renato Ruggiero of Italy, as the EU's candidate, and Mr Salinas, who may be regarded by some as too close to the US.

Mr Ricupero's supporters have a long list of points in his favour: Brazil's economy comprises 40 per cent of Latin America's gross domestic product; Brazil was a founding member of the Gatt, which Mexico joined just eight years ago; Mexico's trade is heavily dependent on the US while Brazil's is truly multilateral - about 20 per cent of its trade is with Asia, 22 per cent with the US, 30 per cent with Europe and 20 per cent with Latin America.

Mr Ricupero's staff call him a "Renaissance man", equally comfortable discussing music, the arts, philosophy and religion. He still teaches two courses at the University of Brasilia, where he started teaching in 1987 and was appointed professor. There is the air of the pedagogue about him as he dissects the pros and cons of trading blocs and concludes that they are "building blocks" of liberalisation in which trading partners can more easily make concessions.

"One of the aspirations of Brazil is to advance towards a South American common market," he said. Eventually the hemisphere would unite under the banner of freer trade.

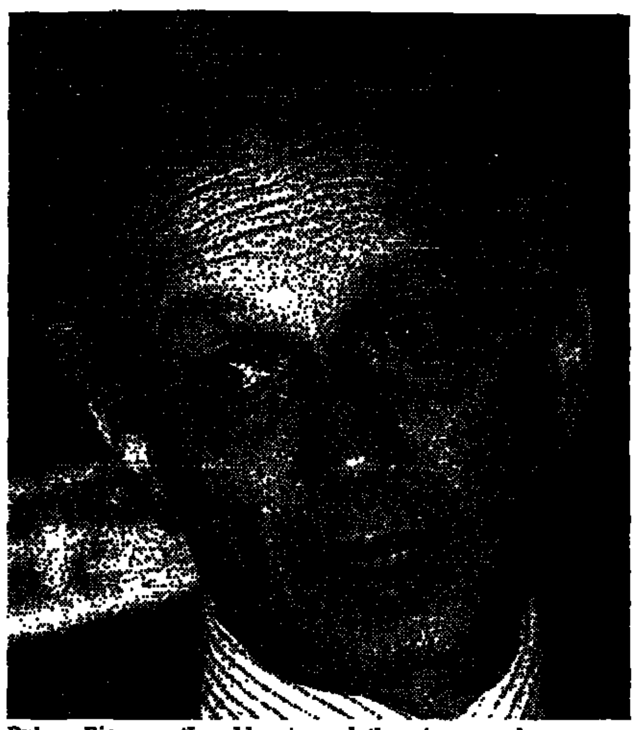
He sees little threat of a return to the protectionism of the 1930s. There is no depression or scarcity of strong currencies to drive it, he said. Instead of deepening political divisions - as between the fascists, communists and democrats in the 1930s - there is now "systemic convergence".

He said the WTO, which still "has only a paper existence", must be given form and substance based on the rules agreed in Marrakesh. These rules must be tested, he said.

He has definite ideas about what the WTO should not be - centralised, like the other Bretton Woods institutions, a large bureaucracy, or ideological. It must be more open to outsiders; special meetings could be called to give access to non-governmental organisations.

As for the controversy over bringing workers' rights into the WTO, he called for a "step-by-step approach for confidence-building" among the warring parties. Polarisation between north and south must be avoided. The issues must be clarified by debate.

"There is a tremendous amount of distrust," he said. "We must avoid being bogged down."



Rubens Ricupero: 'I could go to work there tomorrow' *Tony Andrews*

# US farmers win pledge on subsidies

**By Jeremy Kahn in Washington**

US farm subsidies and programmes will not be cut to make up for the shortfall in government revenue caused by the Uruguay Round of the General Agreement on Tariffs and Trade, according to Mr Leon Panetta, outgoing director of the budget office.

Mr Panetta made the pledge while speaking before a House agriculture committee. The administration has yet to account for approximately 25 per cent, or \$3bn (£1.9bn), of the tariff revenue which the US will lose under the Uruguay Round.

Mr Panetta's assurances to the House committee were intended to quell rumours, circulated by Gatt opponents earlier in the week, that the administration was planning to slash agricultural aid in order to cover the lost revenue.

Some members of Congress had threatened to oppose Gatt implementation legislation if the administration cut farm programmes.

Mr Michael Espy, US agriculture secretary, yesterday said Mr Panetta's announcement demonstrated the administration's deep commitment to domestic farmers.

Despite reports that an announcement of the administration's solution to the \$3bn loss was imminent, no statement has been released so far this week.

Federal lawmakers, who have yet to pass legislation to implement the Uruguay Round, have raised a number of other concerns about ratifying the Gatt deal.

These range from its perceived conflict with US laws and infringement on US sovereignty to fears about the loss of domestic jobs.

Special interest groups opposing US implementation of the Uruguay Round and participation in the proposed World Trade Organisation - the successor to Gatt - have stepped up their attacks recently, staging a "national call-in" to the Capitol Hill switchboards to voice their opposition.



# Resurgence of S African wine sales in Canada

**By Bernard Simon in Toronto**

South African wines have made an unexpectedly strong comeback in Canada since trade sanctions against Pretoria were lifted six months ago.

Canada had vied with the UK as South Africa's biggest wine and spirits market before the imposition of sanctions in 1986.

Government liquor boards, which control wine and spirits marketing in most Canadian provinces, have yet to issue detailed sales figures for the past few months. But an official at the Ontario board, the world's biggest liquor retailer, confirmed that it has struggled to keep up with demand. "There was a fair bit of anticipation among wine enthusiasts for South African products," he said. Many retail outlets have run out of stocks.

Mr Michael Sainsbury, local agent for the South African Co-operative Winegrowers' Association, "conservatively" forecasts sales of South African red wines in Ontario will reach 9,300 cases this year, only 13 per cent short of volumes in 1985, the last full year before sanctions.

He estimates white wine sales this year at 8,000 cases, about two-thirds of 1985 volume. Demand for brandy and other fortified wines has risen more slowly.

The strong performance of the South African products is ascribed partly to competitive pricing and wine drinkers' past loyalties. But their reappearance has also coincided with rising demand for wines from other southern hemisphere countries, notably Australia and Chile.

A vigorous marketing campaign, including the formation of a wine society, has accompanied the South African return. More than a dozen agents have sprung up in Canada to represent various Cape wine estates.

**NEWS IN BRIEF**

## S Korea warned over car imports

The European Commission's deputy director general for industry has warned South Korea that pressure is mounting in Europe for a reduction of Korean car imports unless Seoul opens its market to foreign competition, Reuter reports from Seoul.

In 1993, South Korea exported about 100,000 passenger cars to Europe but imported only 363 European cars. Foreign imports accounted for a mere 0.2 per cent of the total South Korean market of about 1m last year.

## Thai railway decision

The Thai cabinet has decided that the Hongkong group Hopewell Holdings will not have to run any part of its 60km road and railway scheme underground in the centre of Bangkok, William Barnes reports from Bangkok. The cabinet would still like nearly half of Tanayong's 22km elevated railway to go underground following vigorous protests by local environmentalists; the Land Traffic Management Committee has a fortnight to try to negotiate with the Bangkok-based developer. Bangkok Land, which unlike Hopewell and Tanayong has yet to sign a franchise agreement, has agreed to take much of its 20km "Skytrain" project underground; receiving a maximum subsidy of \$660m on top the estimated original \$2bn cost.

## Software raid in Beijing

Chinese authorities yesterday raided a Beijing computer software distributor and four outlets, AP-DJ reports from Beijing.

The Business Software Alliance, an industry-funded watchdog, nevertheless pressed on with calls for the Clinton administration to apply Section 301 of the US Trade Act to its dealings with Beijing. The decision whether to proceed with a so-called "special 301" investigation is due today. If the US imposes 301 and carries out a probe into China's protection of intellectual property, Washington could impose stiff trade sanctions. The alliance said the raids by Beijing's Intellectual Property Tribunal were the first such action waged against illegal software dealers in China.

## Japanese loans to Sri Lanka

Japan will provide concessionary credit for six Sri Lankan projects that will cost over \$330m (£217m), reports Mervyn de Silva from Colombo. The largest loan, for \$190m, will be used by the Ceylon Electricity Board (CEB) to construct a hydro-power plant and a transmission line. Other loans have been allocated for environmental impact and power-system integration studies connected with the coal-fired power project in Sri Lanka's west coast, development of the the Colombo north pier, and flood control.

## Bombay contract for Zimmer

Zimmer, a Frankfurt engineering and construction group, has been awarded an DM85m (£34.2m) contract by Bombay company Rajashee Polyfil to build a polyester plant in Gujarat, reports Valerie Sylvester. The project is a joint venture between the Indian Birla Group and Akzo Nobel Fibres. Zimmer will supervise detailed engineering, construction and start-up of the plant.

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CONTROL DATA
The Integration Company

# COMPUTER NEWS

FS 15073

Thursday June 30 1994

## Control Data - Computer Giant Reborn

*Mike Roberts (right) Chief Executive, Control Data Systems Plc and Barry Jackson, Deputy Chief Executive*

Control Data, a major computer supplier for 37 years, has acquired systems integrator and software house Michael Business Systems. From July 1994 the two companies will trade in the UK as Control Data Systems Plc, offering an unparalleled service to corporate customers, the Government and the public sector. But why is such a merger necessary, and what does it say about today's UK computer industry?

Computing has always been a rapidly changing field. The only successful hardware and software suppliers are those who have been consistently flexible, always managing to supply technology in line with prevailing developments and user expectations.

Control Data has been in business for almost four decades and attributes its success to such vision and planning. It is not now resting on its laurels.

Thirty seven years ago the company operated in the IBM-dominated host mainframe market with six other major suppliers. But as business demand shifted from proprietary mainframes through minicomputers, personal computers (PCs), Local Area Networks (LANs) and on to open systems, several of its rivals fell by the wayside.

Control Data made sure it kept pace with industry changes. A few years ago, though, it realised its need to reshape itself, discarding its former focus on manufacturing and concentrating instead on becoming a total systems integrator. It considered this a vital step if it were to continue to meet the needs of its customers through the 1990s and beyond.

At the same time it determined to close what it views as gaps in the market, ridding disillusioned users of several perennial bugbears: hardware and software that cannot handle mission-critical applications; difficult interoperability; insecure data, and weak systems management tools.

End users have always had their problems. As computing moved from the era of centralised mainframe control to that of distributed solutions using powerful intelligent workstations, several things happened.

Many user companies had great difficulty in controlling technology-related decision making. This often meant that IT functions were distributed and decisions made on a departmental basis without regard to the company as a whole.

LAN "anarchy" and the desktop PC began to rule. Many companies installed PCs and LANs in the hope of cutting costs. They soon found nothing had changed. Instead, they were faced with a host of integration, support and management problems previously undreamt of. Data control in such an environment became highly complex.

With this in mind, the then 60,000 strong $5 billion turnover organisation decided in 1988 to focus solely on integration. It has always had strong integration skills, initially gaining these from its work in linking its powerful parallel processing mainframes to user companies' heterogeneous networks. It methodically built on these skills as the years passed.

In May 1992 the company split itself in two. Control Data Corporation became Control Data Systems Inc and the Ceridian Corporation. The former would concentrate on integration, the latter on manufacturing.

Control Data Systems emerged as a global systems integrator with product independence and 4,000 employees providing service and support in over 40 countries. But still this was not enough.

The company aimed to increase its already considerable integration capability and gain experience and a customer base in the PC, LAN and Wide Area Network markets. With the acquisition of Evernet Inc., in America and Antaris Inc., in Canada, the company hit the acquisition trail in the US and Canada. With regards to Europe the intention was consider only targets with exceptional desktop and LAN integration skills.

*Dieter Porzel, Vice President, Control Data, Europe, Middle East and Africa*

The main European acquisition was in the UK. Control Data researched the market and quickly identified systems integrator and software house Michael Business Systems as having the necessary skills and vision to make it a suitable partner.

Michael was already successful in its own right. It was a profitable, expanding value-added reseller (VAR) with an impressive array of skills and a large, loyal customer base.

As Control Data Systems Plc, the company is certain to earn its position as one of the very few systems integrators with true VAR skills and logistic capabilities.

It has already begun delivering total business solutions from desktop installation to mainframe integration on a European and worldwide basis: customers so far include Bowater, Coutts & Co, Allied Lyons, Thompsons and Marks and Spencer.

The company is now the only one in the UK that can offer a true "one-stop-shop" service across Europe. Reflecting user demand, it will continue to enhance this business approach.

Four divisions will operate: sales, technical, service and finance and administration. Sales offices will be located at Burgess Hill in Sussex, in London and Manchester. The company's European logistics centre will also operate from Burgess Hill, while its major roll-out configuration centre will be at Feltham, Middlesex. This will have communications links to all 35 branch offices in 17 European countries.

The company will begin with 350 employees headed by chief executive Mike Roberts, formerly CEO of Michael Business Systems, and deputy chief executive Barry Jackson, previously deputy CEO of Michael. They plan to increase this number before the end of the year.

Control Data is confident that its move away from manufacturing towards integration specialisation will keep it abreast of a volatile industry and believes its competitors will find a similar move imperative.

In the meantime, it will continue providing the wide range of skills and services required by the public sector, the Government and corporate companies struggling to integrate and streamline differing computer environments.

Control Data Systems is an integrator with true reseller capabilities. It is committed to addressing the issues of mission-critical applications, inter-operability, security and systems management and is fully capable of delivering worldwide computing power from under a single roof.

Few other suppliers could claim as much.

## Friends Provident calls Control Data first

FRIENDS Provident, the leading Insurance and Investment Group, has named systems integrator and software house Control Data as preferred supplier for its expanding direct sales operation, Friends Provident First Call.

First Call was established in 1991 in response to market changes. At that time, Control Data installed and configured a Local Area Network (LAN) to help Friends Provident Appointed Representatives and 30 UK branch offices manage their activities. Simultaneously, the same supplier developed a sales database to enable individual offices to log their activities.

Over 1000 employees and Appointed Representatives now use the network, though this number is set to expand. Friends Provident and Control Data are currently discussing the supply of additional personal computers (PCs) and LAN services for 2,000 more users over the short to medium term.

Andrew Whiting, PC manager within the information systems division of Friends Provident, commented: "We chose to work with Control Data because it responds so well to our needs. It has always been efficient and, through its work, it quickly came to seem like part of my own team."

Whiting values the company's ability to meet close deadlines. "Frequently we have very little notice of the opening of a new branch but Control Data has always been able to complete the installation in time." he said. "It is extremely quick to react."

Asset management has also improved since Control Data began work. As individual Appointed Representatives leave or join the sales network they must be relieved of or supplied with the PC they need for the job. This removal and supply can prove time-consuming and complicated for individual branches to co-ordinate. Instead, Control Data will collect, service and store equipment from agents who are no longer working for Friends Provident, installing it elsewhere as needed.

Though Friends Provident is discussing its expansion plans with Control Data, the supplier is anxious not to appear complacent about the likelihood of extra business. A spokesman said: "This is no 'done deal'. We must earn the right to carry on working with Friends Provident. We believe the best way we can do that is to continue offering the best service we possibly can."

## Control Data Wins Top Marks

Top UK retailer Marks & Spencer has awarded systems integrator and software house Control Data, a two year contract as sole supplier of PCs and related accessories for the whole business, as well as being supplier and installer for their Head Office.

The contract, which will run until April 1996, was awarded by M&S after thoroughly appraising five other major IT suppliers.

A Marks and Spencer spokesman said "one of the main reasons why we awarded the contract to Control Data (formerly Michael) was because they offer good values, financial stability, expansive technical resource and global opportunities".

An additional benefit for M&S in the next two years, is the opportunity to utilise Control Data's warehouse for their own pre-configuration work, and to use it as a delivery centre for their PC systems.

M&S have worked with Michael since 1992, on a supply only basis. During this time they were involved in a feasibility study, to both supply and install through a single supplier. The ultimate success of this trial formed the model for the "invitation to tender" which Michael won.

Yet another project awarded to Michael in 1993, involved completing a major software audit of all Head Office PCs. The resulting database is simple to manage and easy to update remotely from anywhere within the M&S network.


## Sun Alliance keeps a firm grip on the road

SUN Alliance has succeeded where many have failed in the problem-ridden jungle of in-house car fleet management. It now administers an impressive 3,500 vehicles with the help of a tailor-made software package, the latest version of which has just gone live.

The insurer's Group Fleet Control unit has expanded threefold since 1981, when it first took on vehicle management. It originally worked with Sun Alliance's own information systems division to install its first management system, replacing this within 18 months, with VCMS, (now known as FleetPower) a system developed by the specialist transport and fleet management division, then owned by Allied Aims, and now part of Michael Software Systems.

VCMS served Sun Alliance well, and as a result, Michael was asked to co-operate in designing a new system when the need arose for a more powerful one. The result - CarMaster - is newly installed and runs as a discrete network, though links have been built to Sun Alliance's other software packages and to the company mainframe.

"Such links would not be possible without the skills of a knowledgeable software integrator", believes Sun Alliance group fleet manager Bernard Carlton. Before developing CarMaster, he examined the packaged fleet management software market and found it lacking.

Carlton said: "VCMS served us well as a vehicle management package but we simply outgrew it. We wanted a new package specifically written for car fleets but there was absolutely nothing available that suited us."

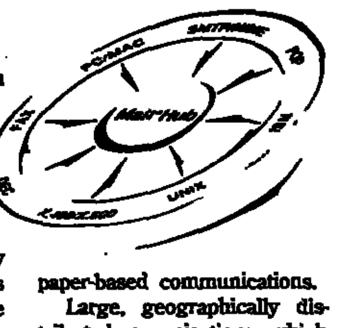
Carlton approached Michael, already one of the leading suppliers of vehicle cost management software, to improve on the old system in a joint development.

CarMaster runs on an IBM AS/400 multi-user minicomputer sited at Sun Alliance's computer centre in Bristol and will support up to 48 users. The Fleet Control unit accesses it remotely from its offices in Horsham.

### News in Brief

Earlier this year, Michael supplied and installed a networked PC System for the new Glyndebourne Opera House.

## Achieving E-Mail system integration




LINKING many different electronic mail services across one single organisation need no longer be a huge problem.

Visitors to a newly opened demonstration centre at Control Data's offices in Stockley Park will see the solution to the problem lies in Mail*Hub.

Mail*Hub links disparate e-mail services, including Microsoft Mail, cc:Mail and DEC ALL-IN-1 Mail, to form a single company-wide E-Mail service.

Using Mail*Hub, fast communications within global organisations becomes easy. For example, Lehman Brothers uses Mail*Hub to link 10,000 users located in 300 different offices worldwide.

In addition to X.400 mail handling, Mail*Hub offers users X.500 directory services technology. This gives a synchronised database for address, configuration and routing information within an organisation. This extends to similar external directories worldwide, for communication with customers.

Global fax and document interchange facilities can also be implemented, bringing about even greater savings in paper-based communications.

Large, geographically distributed organisations which rely on the prompt delivery of information will find Mail*Hub the efficient, productive messaging system to bring about large cost savings.

## Secretariat gains approval for new development

MICHAEL SOFTWARE Systems, part of Control Data, has launched a networked version of its company register software, Secretariat, and has already signed up many customers, including Shell UK and accountants Price Waterhouse.

The company is now actively working on a Windows version of the software.

Secretariat is based on a relational database and is designed to enable Company Secretaries to store and retrieve information and statutory reports, such as shareholder registers and annual returns, in compliance with companies legislation.

Michael has built up a loyal, enthusiastic customer base by making sure Secretariat always meets user needs and by involving existing users in the development process.

Users cite Michael's commitment and customer support and Secretariat's ease of use as the main reasons for their satisfaction.

Helen Parry, manager in Price Waterhouse company secretarial department, "is impressed with the level of customer support available to Price Waterhouse. If ever we have difficulty with something, we know we can phone Michael and have somebody immediately working on a solution," she said.

Deirdre Watson, Assistant Company Secretary at Shell UK, who also chairs the Secretariat User's Group, SUG, has been using Secretariat in standalone mode since 1988. She has recently upgraded to the networked version.

Watson commented: "I am very encouraged by the commitment to the product that Michael has demonstrated. The SUG's role has extended beyond that of a lobbying group on behalf of users to being actively involved with Michael in the development of the product"

Parry is impressed with Secretariat's user-friendly qualities. She said: "Ease of training people for a product is important to us. Secretariat is now even simpler to use than it was before and its extra help facilities are extremely useful."

Parry sees Secretariat not just as a product for Price Waterhouse own use but also as the means to offer a better service to the company's clients.

"I encourage colleagues to turn to my department if they want to offer company secretarial services," she said. "By using us as the company secretarial function for their clients' company books, they can offer great savings in time and fees."

Michael issues upgrades of the software whenever changes in company law make these necessary, together with general enhancements, as and when specific requests roll out of the SUG.

## TDG go for FleetPower

THE Transport Development Group Plc company has recently made a strategic move with Control Data, one of the UK's top Computer Services companies & global systems integrators, and its Vehicle Cost Management System software FleetPower. This purchase will enhance the cost control of its large vehicle fleet that is dispersed across the various divisions of the company; Transport, Distribution, Hire & Storage Divisions.

Linkman Tankers and Beck and Pollitzer are the first companies within the TDG Group to go successfully on-line with Vehicle Cost Control for both maintenance, fuel and Workshop Operations. Paul Muldoon TDG's Product Manager for Fleet Management Systems said; "This agreement is a major step forward in standardising vehicle management information across TDG's business units, allowing more informed decision making and improved control of costs". The other companies in the TDG Group will be brought online with the system in the near future.

FLYING THE FLAG IN EUROPE

## Michael buys P&O subsidiary after own acquisition

Systems and software house Michael Software Systems has acquired transport specialist PCI, previously owned by P&O European Transport Services.

This acquisition is the first Michael has signed since recently announcing its own buyout by Control Data.

It will enhance Michael's already solid reputation as a supplier of high quality software to the transport industry.

PCI customers include some of the largest transport and logistics organisations in the UK and Europe. The company has been implementing its general transport systems, known as GTS, GTF and GTI, on IBM mid-range AS/400 computers since 1985.

Michael Software Systems is already a leader in this market, offering two vehicle cost management systems, FleetPower and CarFleet.

**NEWS:** THE AMERICAS

# Legislators hasten on healthcare bills

By George Graham in Washington

Senate and House committees, spurred on by a tour of Capitol Hill by Mrs Hillary Rodham Clinton, yesterday scrambled to wrap up work on US healthcare reform legislation before Congress goes into recess at the end of the week for the Independence Day holiday.

Administration officials are no longer worrying about the details of the bills emerging from the five main committees with jurisdiction over healthcare; they just want the committee phase finished, so that they can move on to hammering out a bill on the floor of the two chambers.

The labour committees in both House and Senate have marked up bills closely resembling the plan presented by President Bill Clinton.

A third, Congressman John Dingell's House energy and commerce committee, has given up trying for agreement.

The House Ways and Means Committee, which holds sway over taxation and is thus critically important to the financing mechanisms of any reform bill, is expected to produce its version with a final vote today.

Congressman Sam Gibbons, who took over the chairmanship of Ways and Means after the indictment of Congressman Dan Rostenkowski, has succeeded in holding together a Democratic majority on his committee, thanks in part to resentment at the Republicans' tactical decision to oppose everything.

Mr Gibbons' bill would achieve Mr Clinton's goal of universal coverage by expanding the existing Medicare programme to cover the unemployed and employees of small businesses. It would also retain Mr Clinton's requirement that employers pay 80 per cent of their workers' insurance costs – the most controversial element of the reform and the issue on which Mr Dingell was unable to reach an agreement.

That leaves the Senate finance committee which, as the last to mark up the bill, is seen as holding the key to the ultimate passage of the reform.

The committee began detailed drafting yesterday on the basis of an outline produced by its chairman, Senator Daniel Patrick Moynihan. Mr Moynihan's draft would only require employers to pay for health insurance if other reforms to the insurance market failed to expand coverage to 96 per cent of the population over the next five years. Even that delayed mandate, however, is expected to be defeated when the committee votes.

Senator Robert Dole, the Republican leader, was yesterday due to unveil his own modest reform proposal, in an effort to divert criticism of his party's lack of constructive involvement.

# Senate blocks product liability change

By Ken Warn in Washington

Sweeping changes in US product liability law, which would have curbed consumers' rights, foundered in the Senate yesterday when the bill's supporters failed to break a filibuster.

The Product Liability Act was meant to set a national standard for the treatment of lawsuits against manufacturers of products that have injured or killed consumers, in place of the existing patchwork of state laws.

Its backers, led by Democratic Senator John D. Rockefeller, argued that changes were vital to streamline the system, and prevent some of the arbitrary or excessive awards against companies which, they claim, are made under state law.

Fear of liability lawsuits was also damaging US competitiveness by inhibiting product innovation, they argued.

Opponents included a wide range of consumer, women's and union groups, which fought a tough campaign against the bill, claiming that it curtailed the rights of what were often badly injured individuals in favour of well-heeled US corporations.

Its supporters yesterday fell three short of the 60 Senate votes needed to halt debate on the issue, effectively killing the bill for this year.

However, the 57:41 vote was the closest the Senate has yet come to advancing such legislation in a 12-year battle over the issue.

The bill sought to:

● promote alternatives beyond trials in court to resolve liability disputes, such as non-binding arbitration;
● eliminate company liability for injuries caused by defective workplace equipment more than 25 years old;
● end the rule of joint and several responsibility whereby a victim of a dangerous product may be able at present to seek full redress against, for example, a manufacturer and its parts supplier;
● provide an absolute protection against punitive damages for manufacturers of government-approved drugs and medical devices.

## FDA says agency is not intent on prohibition

# Kessler rules out US cigarette sales ban

By Jeremy Kahn in Washington

*Dr David Kessler, the US food and drug commissioner, does not wish to ban cigarette sales even if his agency is empowered to regulate nicotine as a drug, the New York Times reported yesterday.*

A congressional sub-committee has been attempting to determine whether the tobacco industry should be more closely regulated and the FDA – at the request of anti-smoking groups – has been compiling evidence on the addictive qualities of nicotine and whether tobacco companies manipulated nicotine levels in order to hook smokers.

The tobacco industry fears that, if the FDA is given jurisdiction to regulate tobacco based on the addictive nature of nicotine, the agency would move to prohibit cigarette sales, driving US tobacco companies out of business.

But sub-committee members and, now, Dr Kessler, have said it is not their intention to prohibit cigarette sales, an action which conjures up images of alcohol prohibition in the US.

Responding to a suggestion that the FDA is acting as though prohibition were its only alternative to force Congress to find a compromise that severely limits, but does not ban, cigarette sales, Dr Kessler said: "We haven't approached it that way." He added: "We must investigate seriously the question of whether nicotine is a drug under the law. If we did come to that conclusion. . . the blunt instruments we have at the FDA to deal with the issue. . . are not necessarily the best to find a reasonable final policy."

He said he would like to see regulation focused on preventing people – particularly teenagers – from taking up smoking. The FDA, Congress and the tobacco industry said they could find common ground on this.

**WORLD CUP**

# Diplomatic Brazilians respectful of hosts

A classic mis-match? Three-times world champions Brazil are expected to meet the US in the second round of the World Cup in San Francisco next Monday – July 4 – and are trying to appear, like, humble.

The Brazilians dot their comments about the American team with terms like "much improved", "very difficult" and "respect." But it is easy to suspect that the lofty Brazilians are being diplomatic about the World Cup hosts, who have reached the second round against most expectations.

"It is an opponent we respect like all the others. If they reached the final 16, they did so on merit," said Brazil's coach, Carlos Alberto Parreira.

Brazil drew 1-1 with Sweden on Tuesday to top Group B in the first round. The US team were third in Group A.

What exactly does Brazil respect about the Americans, Parreira was asked.

"They are very determined to win," he replied. "They have two or three fast players up front."

On the other hand, odds-makers have made Brazil cramped favourites to win the title, and are quoting less than 2-1 against them in London, even though four knock-out stages remain.

Brazil have won all five of their previous matches against the US. The last time the US scored against Brazil – during a 4-3 loss in 1930 – Herbert Hoover was in the White House.

Worse, the Americans will be without mid-fielder and playmaker John Harkes (see story right), who got his second yellow card against Romania and will sit out a compulsory one-game suspension.

The Brazilians still won't knock their hosts. "They are a very difficult team, despite their lack of soccer tradition," says mid-fielder Dunga. "They are greatly improved, with players from Germany and England."

Team-mate Mazinho also predicted a tough match "even though we have superior technique and tradition."

● After Mexico's 1-1 draw with Italy on Tuesday, securing a second-round spot, two men died and many were hurt after celebrations in Mexico City led to violence. Youths, many drunk, roamed streets, smashing windows.

Mexico's coach has pleaded with fans to celebrate peacefully.

# Falling foul of Fifa's forcefulness

## Jurek Martin on implications of the increase in yellow cards

*This is not a trivial question.* Apart from the fact that they sound as if they were separated at birth, what do John Harkes and John Starks have in common? *Answer: they are both ignorant of* the basic laws of the games which they play.

Harkes is the gifted US midfielder who, in an act of supreme idiocy, allowed himself to get a yellow card in the US match against Romania, not for hacking someone down to prevent a threat on goal but for refusing to retreat the required 10 yards from a Romanian free kick.

It was his second yellow of the first round, meaning that he must miss the next US match. The fact that he plays in the English premier league is no excuse. Any red-blooded American, playing on the most successful soccer team this country has yet produced, should give his eye-teeth to play in his national colours on July 4, of all weekends.

The fact that the match is expected to be against Brazil is just gilding the lily.

Harkes, unrepentant and savagely critical of a pair of team-mates who, on and off the field, dared to criticise his foolishness, claimed ignorance of the yellow card law. The fault, in his view, naturally lay with the evil Carpathian, Gheorghe Hagi, whom, he charged, was "a cheat," and with Fifa, for not disseminating the rules more widely.

If he had watched television or read a newspaper with his ears and eyes even half open, which he could hardly not do over the last two weeks, because the US team and the World Cup have been getting good play, he would have to concede that his defence was ludicrous. Yellow cards, now averaging over four a game, have been one of the stories of the tournament. In any case, Fifa advised all teams of the rules as long ago as last December.

John Starks plays for the New York Knicks who play basketball, a sport one of whose basic laws is that it is invariably a good idea to pass the ball to the team-mate in the best position to put the ball into the basket.

The great Knicks team of a generation ago – some of whose members have gone on to other fame and fortune, even, dubiously, the US senate – was predicated on the principle of finding the "open man."

Russia's Valeri Karpin is brought down by Raymond Kalla of Cameroon during Tuesday's game. Picture: Reuter

In last week's championship finale, Starks forgot the basic law. Assuming that the game against the Houston Rockets was winnable only by his own efforts – and it takes some nerve to believe that one man can beat five – he neglected his fellow Knicks and hoisted hapless shot after hapless shot. Houston won by seven points and, to give him the credit that Harkes does not yet deserve, Starks was more or less contrite. But he was also dumb.

Now, the law in all sports can be pretty fungible and all practitioners make a point of stretching it where they can. Leg-before-wicket has its elements of subjectivity. Cricket batsmen and baseball hitters do not hesitate to rub an arm even if they know the ball has hit the bat.

Referees, umpires and judges are not infallible – even those determining synchronised swimming can suffer from misted goggles. In the good old days of the cold war, it was assumed that those from the "other" side had been bribed, threatened or were making a political point.

From a managerial or coaching point of view, team psychology, as Jeeves might have put it, can be a factor. Jack Charlton, Ireland's manager, was never about to back down in the face of obscure Fifa officials complaining about his wandering of the touchline in the Ireland-Mexico match, even though it cost him his perch in the Norway game.

Likewise, Earl Weaver, a great baseball manager, would berate umpires and kick dirt all over their painted black shoes so as to inspire his Baltimore Orioles to fly again.

Soccer has more than its share of sharp practice, which has not been eliminated even by this most tightly policed of tournaments. Most tackles get the dying swan treatment from the tackled; most goalkeepers fall down at the slightest suggestion of halitosis from an attacker; and many goals are appealed for offside even though half the defending team is camped on the goal-line.

But the interesting thing is that sporting authorities, which make the law, are starting to get tougher. Take ice hockey. Here is a sport, beloved by Canadians with no teeth and by lots of eastern Europeans, which was falling into serious disrepute because of its lack of observance of nominal law. Teams employed goons dressed in uniform physically to damage opposition stars in the belief a) that matches could be won this way and b) that the public liked a good punch-up.

A shocking thing happened last year when the North American game came under a new commissioner. In the play-offs, a Washington player reacted typically to a Pittsburgh goal by sharply bringing down his stick on the scorer's wrist, breaking it (the wrist, not the stick).

Old hockey would have puffed itself up and given the offender 10 minutes in the penalty box. New hockey suspended him for the best part of half a season, without pay. This year, the renaissance of the sport has been astounding.

There is no way of knowing what thought processes and precedents passed through Fifa's collective mind in laying down the law for this World Cup, beyond the obvious: that it had half an eye on making the game attractive to America.

But, having done what it has done and having seen its referees carry out their mandates with some precision, no player can conceivably claim ignorance of the new rules of the game.

Not all are new – no-one has been sent off yet for over-acting – and some, like the limits on passing back to a goalkeeper, have been in use for some time. The yellow card rules, likewise, were not clothed in legalese or deliberately hidden from the players.

The simple lesson is this: those who know the law can bend it most effectively; those in ignorance can only be caught by it, with heat of the moment no mitigating excuse. Harkes and Starks, in their different ways, need to go to law school. Come to think of it, Harkes and Starks has a nice ring as a law firm.

# Saudis shock Belgium to qualify with Holland

Saudi Arabia produced one of the most unexpected results of the opening round of the World Cup finals yesterday when they toppled previously unbeaten Group F favourites Belgium 1-0.

Their winning goal came after only five minutes when Saeed Owairan burst from an unmarked position in his own half to carve open the Belgian defence with a spectacular run and emphatic finishing shot.

It was the first goal conceded by Belgium in the tournament and ensured that the Saudis qualified for the second round.

In Orlando, Holland swept through, beating Morocco 2-1. Bryan Roy, who had been on the pitch just 11 minutes, scored the winner in the 78th minute, gratefully snapping up a chance provided by Dennis Bergkamp, who had earlier scored the first Dutch goal.

## Argentina seek to avoid Italy

Nothing is likely to stop Argentina reaching the World Cup second round today as top team in Group D. But coach Alfio Basile wants no slip-ups when Argentina meet Bulgaria at the Cotton Bowl, Dallas. The reason? Argentina do not want to play Italy in the second round.

Basile's team must overcome a Bulgarian side scrambling for a third-place qualification spot.

The Argentine coach is forced to make one change. Defender Nestor Sensini has a knee injury and will be replaced by Hernian Dias.

## Second round almost complete

After yesterday's play, 15 teams had booked second-round berths: Romania, Switzerland, the US, Brazil, Sweden, Germany, Spain, Argentina, Mexico, Ireland, Italy, Belgium, Holland and Saudi Arabia.

The last slot will be confirmed today, at the end of first-round action. From the second round, matches are decided by knock-out.

Second round:
July 2: Switzerland vs Spain (Washington, 9.30pm; all times British Summer Time).
July 2: Germany vs a 3rd-place finisher (Chicago, 6pm).
July 3: Romania vs a 3rd-place finisher (Los Angeles, 9.30pm).
July 3: Saudi Arabia vs Sweden (Dallas, 6pm).
July 4: Brazil vs a 3rd-place finisher (San Francisco, 8.30pm).
July 4: Holland vs Ireland (Orlando, 5pm).
July 5: Group D winners vs a 3rd-place finisher (Boston, 8pm).
July 5: Mexico vs Group D runners-up (New Jersey, 9.30pm).

Quarter-finals: weekend of July 9-10, in Boston, Dallas, New Jersey and San Francisco; semi-finals: Wednesday, July 13 (New Jersey and Los Angeles); final: Sunday, July 17 (Los Angeles).

■ **Results**

GROUP F

| | | | |
|---|---|---|---|
| Belgium | 0 | Saudi Arabia | 1 |
| Holland | 2 | Morocco | 1 |

■ **Standings**

| | P | W | D | L | GD | Pts |
|---|---|---|---|---|---|---|
| **GROUP A** | | | | | | |
| Romania | 3 | 2 | 0 | 1 | 0 | 6 |
| Switzerland | 3 | 1 | 1 | 1 | +1 | 4 |
| USA | 3 | 1 | 1 | 1 | 0 | 4 |
| Colombia | 3 | 1 | 0 | 2 | -1 | 3 |
| **GROUP B** | | | | | | |
| Brazil | 3 | 2 | 1 | 0 | +5 | 7 |
| Sweden | 3 | 1 | 2 | 0 | +2 | 5 |
| Russia | 3 | 1 | 0 | 2 | +1 | 3 |
| Cameroon | 3 | 0 | 1 | 2 | -8 | 1 |
| **GROUP C** | | | | | | |
| Germany | 3 | 2 | 1 | 0 | +2 | 7 |
| Spain | 3 | 1 | 2 | 0 | +2 | 5 |
| S.Korea | 3 | 0 | 2 | 1 | -1 | 2 |
| Bolivia | 3 | 0 | 1 | 2 | -3 | 1 |
| **GROUP D** | | | | | | |
| Argentina | 2 | 2 | 0 | 0 | +5 | 6 |
| Nigeria | 2 | 1 | 0 | 1 | +2 | 3 |
| Bulgaria | 2 | 1 | 0 | 1 | +1 | 3 |
| Greece | 2 | 0 | 0 | 2 | -8 | 0 |
| **GROUP E** | | | | | | |
| Mexico | 3 | 1 | 1 | 1 | 0 | 4 |
| Ireland | 3 | 1 | 1 | 1 | 0 | 4 |
| Italy | 3 | 1 | 1 | 1 | 0 | 4 |
| Norway | 3 | 1 | 1 | 1 | 0 | 4 |
| **GROUP F** | | | | | | |
| Holland | 3 | 2 | 0 | 1 | +1 | 6 |
| Saudi Arabia | 3 | 2 | 0 | 1 | +1 | 6 |
| Belgium | 3 | 2 | 0 | 1 | +1 | 6 |
| Morocco | 3 | 0 | 0 | 3 | -3 | 0 |

■ **Today's games**

GROUP D

Argentina vs Bulgaria
Dallas (12:30 am Fri. BST)
Greece vs Nigeria
Boston (12:30 am Fri. BST)

## Divine help in the press box

Amid the crush of sweating hacks in the media centre at Giants Stadium, New Jersey, a surreal sight: two nuns seated at a desk, happily watching the Brazil-Sweden game on TV.

Sisters Marie France and Mary Francesca normally help run a soup kitchen from a mission in Spanish Harlem, and were not at the stadium to save the lost souls of the press room, though they would help if asked.

The two French nuns are working as offical interpreters, mostly with French-speaking supporters and journalists. "We like to help," says Sister Marie.

# Former directors of BCCI sue Abu Dhabi

By Richard Waters in New York and Andrew Jack in London

Three former non-executive directors of the collapsed Bank of Credit and Commerce International yesterday launched a legal action in the US against Abu Dhabi, the bank's majority shareholders, seeking damages of $100m (£65m).

The suit marks a highly unusual attempt by directors to sue shareholders, and is partly an attempt to respond to the damage they believe has been done to their reputations by the collapse.

The three directors – Mr Alfred Hartmann, Mr Yves Lamarche and Mr Johan van Oenen – have recently been sued in Luxembourg by BCCI's liquidators and in Paris by the liquidators to the bank's French arm.

The action could give the directors access to millions of internal bank documents which recently arrived in the US. Lawyers for the three claim these papers would give far more details of the BCCI fraud than have yet emerged and would reveal the role of Sheikh Zayed Bin Sultan Al-Nahyan, the Gulf state's ruler, and of other officials.

The US action, filed in a New York state court yesterday, is based largely on published information. It alleges that Sheikh Zayed – with his son, Sheikh Khalifa bin Zayed Al-Nahyan, and other Abu Dhabi officials – knew of the fraud in the spring of 1990, but hid this from the banking regulators and from BCCI's auditors and non-executive directors. BCCI was not closed down until July 1991.

Mr John Mitchell, a lawyer acting for the directors, conceded that the exercise amounted to "a fishing expedition", but said this was allowed in US civil cases to give plaintiffs access to all the evidence they might need.

The directors claimed that the auditors, Price Waterhouse, had been "manipulated and controlled by the shareholders", and the directors were left uninformed for many months about the investigations into fraud that were taking place. Price Waterhouse rejected these claims.

Abu Dhabi yesterday rejected the charges, many of which had been heard before, it said.

The three directors taking the action are:

- Mr Alfred Hartmann, a resident of Herrliberg, Switzerland, who joined BCCI's board in 1982, having been general manager of the Union Bank of Switzerland, managing director and deputy chairman of Hoffman-La Roche, and a director of the Swiss operations of the Royal Bank of Scotland, Bank of New York, Lavoro Bank, Rothschild Bank and Banca del Gottardo.
- Mr Yves Lamarche, a US citizen and resident of Paris, who joined BCCI's board in 1975. He was senior vice-president of the Middle East Area Office for the Bank of America, and then president and chief executive officer of Banque Arabe et Internationale d'Investissement from 1980.
- Mr Johan Diderik van Oenen, a Dutch citizen who lives in England and who joined BCCI's board in 1978. He was a senior officer with Bank of America in 1960-73 and became executive vice-president of the Bank of Montreal.

# Mexican financier released

By Damian Fraser in Mexico City

The kidnapped Mexican financier Mr Alfredo Harp Helú was released on Tuesday night, after his family had agreed to pay a ransom which his abductors said was less than $30m.

Mr Harp, president of Banamex-Accival, Mexico's largest financial institution, and one of the country's wealthiest men, was kidnapped on March 14 near his house in the south of Mexico City. His abduction sent Mexico's stock market tumbling.

He is pictured right, in an AP photo, during his captivity and holding a copy of a Mexican newspaper, dated June 19.

Several hundred rich Mexican businessmen have been kidnapped in recent years, mostly in the provinces, but none was as prominent as Mr Harp.

In April, Mr Angel Losada, a wealthy retailer whose family controls Grupo Gigante, was kidnapped in Mexico City, and it is believed that he is still being held captive.

The families of kidnap victims generally do not co-operate with the police, whom many suspect of being involved with the kidnapping gangs. In an effort to combat organised crime, the Mexican government set up a new national security agency in April, the day after Mr Losada was seized.

# Many teachers, not much teaching

THE NEW ECONOMIC ORDER

Education, most economists agree, has played a critical role in east Asia in achieving economic growth and reducing wealth inequalities. Not so in Latin America where in the last decade – partly because of budget stringency following the debt crisis – school systems have deteriorated.

Latin America on average scores reasonably well in the resources it devotes to education. In 1990, South Korea channeled 3.6 per cent of gross national product to education, Singapore 3.4 per cent and Malaysia 6.9 per cent, according to the United Nations Development Programme. That compares with 4.1 per cent in Venezuela and Mexico, 5.5 per cent in Panama and 4.6 per cent in Brazil.

But the problem is not so much the amount of money spent, but the way it is spent. All over Latin America, teachers are political appointees, many not even meeting minimum standards of literacy. In Argentina, says Mr Juan Llach, economic planning secretary, "the number of people teaching is very small compared with the number of teachers".

Furthermore, while most economists argue that primary level education yields the greatest economic and social benefit, the returns to politicians of devoting large-scale resources to further education are often higher.

"The average quality of Latin America's primary education is very poor," said Mr Sebastian Edwards, the World Bank's chief Latin America economist, in a report last year. One international comparative study of the reading abilities of nine-year-olds found that Venezuelan students ranked last.

"This unhappy combination" of neglected primary education and heavily subsidised higher education "has had serious regressive distributive effects, reducing the resources available to the poor, leaving illiteracy rampant," he said.

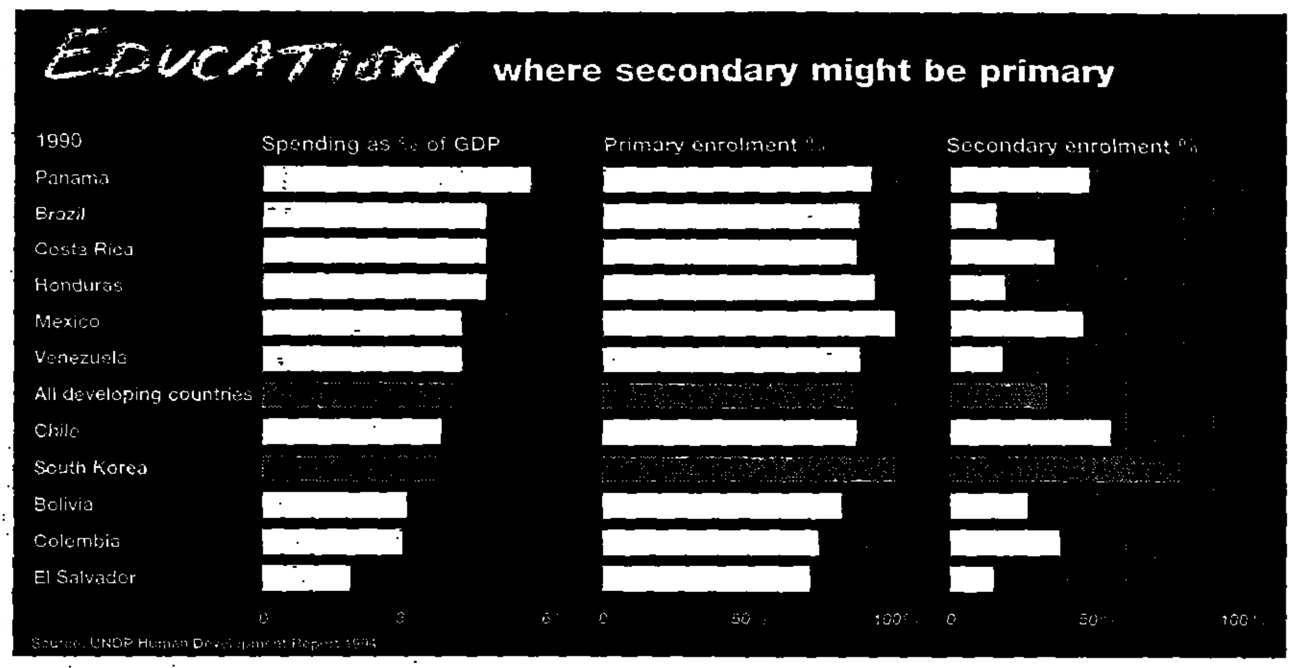
Venezuela's ministry of education is by far the country's largest employer. Mr Gustavo Márquez, a professor at IESA, a private university in Caracas, says that the share of the education budget spent on administration and planning rose from just under 30 per cent in 1980 to 43 per cent in 1991.

Rising enrolment has usually not been matched by an increase in resources. Spending per child in Latin America fell by an average 28 per cent in the 1980s, according to the World Bank. With spending on books, equipment and teacher training also falling, many children drop out or retake classes – giving Latin America the highest repetition rates in the world.

**Stephen Fidler**

# Raising Brazil's poorest

## Angus Foster finds slow progress in education




The mayor of Aracati, a small town on Brazil's north-east coast, recently took office, then closed a local school because its teacher had opposed his election.

The political use of education is not new in Brazil's poor north-east. But such interference, mixed with government mismanagement and corruption, produces illiteracy and poor learning, and threatens to prolong greatly the region's underdevelopment.

Brazil cut national illiteracy from 51 per cent to 18 per cent in 1950-1990 but, in the north-east, the rate remains at 39 per cent.

The federal government in Brazil is obliged by law to spend at least 18 per cent of its budget on education, while states and municipalities have to spend 25 per cent. So there should be ample funds to improve education nationally.

The problem is less the amount of resources, rather what they are spent on. Too many governments have used their budgets to recruit "teachers" at election time in return for votes or to award school building contracts to political backers. As a result, too little money is left for what is needed, long-term investment in the quality of teachers and education standards.

The poor quality of the state system is most visible in figures on children having to repeat school years and on truancy. For the north-east in general, less than half the children who start primary school complete the first-year requirements and progress to the second level. There is a further sharp shake-out between the fourth and fifth level, about age 11, since many rural teachers are unable to teach the more demanding syllabuses.

In Maranhão, only 10 per cent of children complete the eight levels of primary school which are meant to be compulsory. Officials from the state's education department say many rural teachers earn less than the equivalent of $10 (£6.45) a month, hardly enough to buy basic food for a week. One teacher in three has only completed primary school; some are barely literate.

Faced by such problems, improvements will take many years. But at least two states are attempting reforms and initial indications are encouraging. An education ministry programme to improve management and teaching, which includes $418m of World Bank money, will also help press states to raise standards and reduce corruption.

In Piauí, one of Brazil's poorest states, a five-year programme is under way and has lifted spending on education to 33 per cent of the state budget, well above the legal minimum.

The results are mixed so far – the programme only started in 1991. However, in interior areas, pass rates have risen slightly and truancy is down. In Teresina, the state capital, though, pass rates have fallen because of teachers' strikes against government plans to introduce public examinations for all teaching jobs.

In neighbouring Ceará state, rapidly developing a reputation for good – and clean – government, public exams have also been reintroduced. In previous administrations, teachers were appointed through patronage.

Ceará is also, with several other states, trying to decentralise primary school administration to the municipalities, who have closer contact with parents and children. But this will take many years, especially since poorer municipalities cannot afford to increase education spending.

# Sinn Féin calls special Ulster conference

By Tim Coone in Dublin

Sinn Féin, the political wing of the IRA, is to hold a special delegate conference – the first of its kind in 23 years – to finalise its response to the Downing Street declaration, amid growing expectations that the IRA may announce an extended ceasefire during the summer.

The conference will be held "within the next few weeks" and the party's formal and definitive response to the Anglo-Irish declaration will follow immediately after according to a party spokeswoman. The declaration offers a place at the negotiating table to Sinn Fein, if it formally and permanently renounces violence.

Last week, the party published the findings of its Peace Commission, which revealed that almost 40 per cent of 280 written and oral submissions to it believed the party should encourage the IRA to call a unilateral ceasefire. Mr Pat Doherty, the party's vice-president, said at the time that the commission's findings would influence "how we should proceed in the weeks and months ahead".

The only other occasion when a special conference has been convened – other than its annual conference – was in 1971, which formalised the split between the provisional and official Sinn Féin, and their respective military wings. The "officials" subsequently abandoned military actions, as well as the Sinn Féin title, and entered mainstream politics as a socialist party.

The present Sinn Féin leadership is anxious to avoid any further split, and is moving cautiously to avoid confrontation between moderates and hardliners within its ranks. A temporary ceasefire is thus likely to be seen as the best compromise in order to give a positive response to the Downing Street declaration, but without rejecting it.

In Sinn Féin's view, a temporary ceasefire would shift the political pressure onto the Loyalist paramilitaries to suspend their own military activities. A ceasefire would also be seen to refocus the political debate onto what it has now defined to be the key areas of the conflict which it says "must be adequately addressed".

Sinn Féin believes these key areas which have to be addressed in the debate are that the Irish people as a whole have the right to national self-determination; that the exercise of self-determination is a matter for agreement between the people of Ireland; that the unionists cannot have a veto over constitutional change; and that the British government must join the persuaders. Several of these points are at odds with the Downing Street declaration.

● A senior policemen warned that pirate videos were an important source of funding for terrorists in Northern Ireland. Detective chief superintendent Derek Waites of the Royal Ulster Constabulary Anti-Racketeering Squad told a London conference that the terrorists who tended to raise around £10.5m a year to fund their activities took £1.5m a year from pirate video sales.


The Campaign for Racial Equality launched a campaign under the title Uniting Britain - For a Just Society. At the launch were Michael Howard, home secretary, Mr Herman Ouseley chairman of the CRE, right, and Sukhdev Sharma, executive director, left.

# Lib Dems outline case for Euro re-run

By James Blitz

The Liberal Democrats, Britain's centrist third party, yesterday outlined some of the evidence they will be bringing before the High Court later this week in order to have the result of the European parliamentary election in Devon and Cornwall overturned.

The party, which failed to win the seat after more than 10,000 people backed a candidate calling himself a "Literal Democrat," will today submit an electoral petition which will be backed by more than 400 people in the constituency.

The petition was due to be lodged yesterday, but was delayed because of the rail strike. The Liberal Democrats, who lost the seat to the Conservatives by just 700 votes, will use the petition to call for the previous result to be declared void and the election to be run a second time.

Mr Graham Elson, the Liberal Democrats' General Secretary, said yesterday that his party's case had been backed by statements of protest from electors who had been misled.

He said that a first bundle of 269 affidavits had been delivered to his party's offices in Devon and that a further 120 were expected. It is understood that there have been other statements and letters of protest.

The party is bringing the action under the Representation of the People Act 1983. Two judges will decide next month how the case is to be heard later in the year. The petition will name Mr Frank Palmer, the election returning officer, who accepted the nomination form of the Literal Democrat candidate, Mr Richard Huggett.

It will also name, Mr Giles Chichester, the successful Tory candidate, so that he is given the opportunity to present his case.

# Major attempts to embrace the Thatcher mantle

**Philip Stephens** considers how Britain's prime minister has been wooing the right-wing Euro-sceptics within his party and how his colleagues in a divided government have reacted to his stance

Mr John Major heads a cabinet overwhelmingly of the Tory centre-left. He leads a party at Westminster dominated increasingly by the right wing. He was chosen by the right as the only acceptable successor to Baroness Thatcher. Under the tutelage of Mr Chris Patten, now governor of Hong Kong, he immediately chose the centre-left as his more natural political home.

Now, after fighting them over Europe for most of the past three years, he has once again embraced the right. His erstwhile enemies among the Euro-sceptics are confident that the prime minister has at last ended up as One of Us. But the message from cabinet big-hitters is – don't believe a word of it. No wonder Mr Major's party is confused. Where next, asked one senior minister with more than a hint of distaste this week. There's no going back, answered a rightwing colleague.

One or two things are clear. His tilt to the right has left Mr Major feeling more comfortable than he has for some time.

Waving the Union Jack during the European election campaign elicited plenty of unaccustomed plaudits from his own party. Vetoing the candidacy of Mr Jean-Luc Dehaene for the presidency of the European Commission won him the sort of cheers in the House of Commons that he has not received since the immediate aftermath of the 1992 general election victory. Mr Major would not be human if he did not prefer applause to catcalls.

But the shift pre-dated the European poll. It started with the ill-fated back-to-basics campaign at last autumn's party conference when the Tory faithful were invited to parade their prejudices. The Conservatives need enemies. The trade unions have been tamed and the Communist bloc dismantled. Single mothers, social-security scroungers, criminals and European federalists offer a convenient substitute.

The slogan was obliterated by a spate of disclosures about ministerial adultery. But the benefits to be gained in terms of shoring up his own position did not escape Mr Major. The chattering classes may scoff, but the Tory faithful are not alone in caring about crime, about standards in schools and about the level of their taxes.

The Euro-sceptic mood in 10 Downing Street has its roots in the same tactical manouevring. Back to basics saw off the possibility of a leadership challenge last autumn. Threatening and then using the British veto in Europe could do the same this year. The Tory right has after all proved itself consistently a much more ruthless enemy than the centre-left.

There is no need to look further than the cabinet to see the consequences of the shift. The week began with Mr Michael Portillo capitalising on the reaction to the Corfu veto by setting out his minimalist vision of Europe's future. Mr Major, whose dislike of the chief secretary is one of Whitehall's worst-kept secrets, publicly praised Mr Portillo for delivering an excellent speech.

Mr Clarke decided to redress the balance with a typically unabashed defence of his pro-Europeanism. The message was unequivocal. The sceptics may have put their tanks on Mr Major's lawn but they had better keep them off the chancellor's patch. Mr Major's aides just about managed to keep a straight face as they insisted the prime minister was fully in accord with Mr Clarke as well as with Mr Portillo. The sceptics, predictably, fumed.

The political initiative remains for now with the right. As long as his future is under threat Mr Major will feel more comfortable leading the party from the right than rejoining the ranks of the centre-left. Other, more fundamental, forces are pushing him in the same direction.

The prospect of a Blair-led Labour party occupying more of the pro-European political centre ground will raise the pressure on Mr Major to give more definition to his politics. He has failed to cast a centrist alternative to Thatcherism. His party's centre of gravity has shifted back towards the right. Re-inventing the Tories as the party of nationalism is an attractive option.

Mr Douglas Hurd, as anxious as the prime minister to prevent the party from fracturing along its European fault-line, will offer some bricks to build the intellectual foundations for the new approach. He invented the multi-speed, multi-track Europe which played so well with the Tory troops in the elections for the Strasbourg assembly. We can expect now some more elegant rhetoric to explain how a strong commitment to British nationhood and to Europe can henceforth sit comfortably side by side.

It is not enough however, for Mr Hurd to stand between Mr Clarke and Mr Portillo or between Mr Major and the Tory backbenches. The prime minister is enjoying his sojourn on the Euro-sceptic right of the party. But his party and his cabinet remain divided. It is too late now for Mr Major to claim Lady Thatcher's mantle.

# McDonald's accused of censorship

The McDonald's *fast food* chain was yesterday accused of using the libel laws to censor and silence its critics.

Mr Dave Morris and Ms Helen Steel, who have accused McDonald's of poisoning its customers, exploiting third world countries and employing cheap labour, told the High Court in London that the world's biggest *food service* organisation threw writs at anyone who dared criticise it – no matter how small.

McDonald's has sued the pair for libel over a "malicious" leaflet. The company's QC, Mr Richard Rampton, has told the court it was "completely false *in every material* respect".

Mr Morris, 39, and Ms Steel, 28, members of the London Greenpeace group – which has no connection with Greenpeace International – *claim their allegations* are justified.

The pair, who are unwaged and conducting their own defence because they cannot afford lawyers, yesterday told Mr Justice Bell it was an "outrage" that the company was prepared to go to such lengths.

Mr Rampton has said it was *completely* untrue that McDonald's was involved in "wrecking the planet" by destroying rain forests to provide packaging materials and create grazing for beef cattle. The company had not seduced children into eating poisonous food and was not responsible *for the barbaric deaths of animals* to provide meat. The case continues.

# Euro-sceptics enraged by Clarke speech

By Philip Stephens and David Owen

A powerful exposition of his party's pro-European credentials from Mr Kenneth Clarke, *the chancellor of the exche*quer, yesterday enraged Tory Euro-*sceptics*.

Mr Clarke's re-affirmation of a personal commitment to a single European currency and to further deepening of the European Union came as Mr Douglas Hurd, foreign secre*tary, sought to head off* a new outbreak of party in-fighting.

Speaking in Bonn, *the chan*cellor dismissed suggestions that the recent dispute over the presidency of the Commission marked a fundamental shift in British policy. He called for Germany's Christian *Democrats to join the Conser*vatives in promoting a common agenda for Europe's future.

Taking a sideswipe at his own party's sceptics, he evoked the phrase employed three years ago *by Mr John Major* to stress: "We Conservatives intend to be *at the heart of* Europe".

Mr Clarke's comments about a single currency kept just within the agreed government line that any decision must be taken by the British parliament. *But the chancellor* made no secret of his own view that *Britain must be in a position* to join EMU if and when the occasion arises. He remarked that the government had twice signed up to the objective – when it joined the then EC in 1972 and when it signed the *Single European Act in 1976*.

He called on Britain and Ger*many to build on the intergov*ernmental dimension in the Maastricht Treaty to strengthen co-operation on foreign and defence policy. London and Bonn should act in concert also to promote further enlargement of the Union and to push an internal agenda *favouring deregulation and lib*eralisation.

Despite approval for the speech from Downing Street, leading Tory Eurosceptics responded with outrage. Accusing the chancellor of under*mining the prime minister*, the sceptics said the speech had effectively ended Mr Clarke's hopes of succeeding Mr Major in 10 Downing Street.

For his part Mr Hurd sought to assure a meeting of pro-European Tories in the Positive Europe group, that the *government's* decision to use its veto at the Corfu summit did not represent a lurch into the arms of the Eurosceptics.

Mr Hurd will use a speech later this week to develop the theme of a multi-speed Europe around which he *said* the vast bulk of the Conservative party could *unite*.

# Rail strike may escalate as government faces questions

By Robert Taylor and Kevin Brown

Leaders of the RMT transport union will meet on Monday to decide whether to escalate the dispute involving railway signal staff, who yesterday staged their third one-day strike.

The following day, Mr Jimmy Knapp, the RMT general *secretary*, and *Mr* Bob Horton, the Railtrack chair*man, will give evidence to the* Commons employment committee on the dispute.

Mr John MacGregor, the transport secretary, faces a potentially embarrassing grilling by the cross-party committee the following week on the government's intervention in the rail pay negotiations.

The RMT executive meets against a background of continuing deadlock after the col*lapse of peace talks earlier this* week.

One option under serious consideration is to escalate stoppages from 24 hours weekly to 48 hours weekly. A further 24 hour strike is *already planned for next* Wednesday.

The three 24 hour stoppages have cost Railtrack, the state-owned infrastructure company and network operator, an estimated £30m in lost revenue.

Mr Jimmy Knapp, the union's general secretary told delegates at the RMT's annual conference in Liverpool yester*day the signalling grades* remained solidly behind the strike action.

"I regret the ongoing inconvenience to the public and I want to get my members back to work with a just settlement", he said. "But I don't see where an easy answer is going to come from at the moment."

In a letter sent to the signalling staff last night he said they had "already given more than enough" in *efficiency* improvements. "Railtrack *must now pay the bill owed* for past and present productivity."

In a statement the RMT said Railtrack's latest package for the signalling staff tabled at Acas, the conciliation service had taken the negotiations *"several steps backwards."* Three weeks ago, the union said, the company had offered 5.7 per cent on basic rates – now it was offering conditional average rises of 3.5 per cent in actual earnings.

The RMT said Railtrack was now demanding commitments from the union on future productivity and restructuring *that "allowed no scope for* negotiation on principles and only restricted negotiation on detail".

Mr Knapp told delegates he viewed "with growing alarm" the use of managers to operate the signalling system during the one day strikes. "We are not operating a safe railway today", he said.

Railtrack denied last night that safety was at risk on the railways.

It said all staff operating signalling boxes during the strikes were either non-union signalling staff or qualified supervisors and managers and that staffing arrangements were in line with safety criteria which had been laid down.

## Britain in brief

### UK growth to slow, predicts LBS

Economic growth will slow and inflation will rise in 1995, according to the latest forecast by the London Business School.

*The LBS forecast, prepared* by one current member of the Treasury's panel of independent forecasters, Mr David Currie and one former member, Mr Andrew Sentance, is rather less sanguine than the Treasury forecast produced on Tuesday.

Whereas the Treasury was predicting 2.75 per cent gross domestic product growth in 1994 and 1995, LBS forecasts that growth will be 2.5 per cent this year, slowing next year to 2.3 per cent. Tax increases will slow the recovery and investment and exports will take up the running from consumer demand.

LBS predicts that interest rates will have to climb to combat an increase in underlying inflation, which *it expects* to pick up to 3.5 per cent in the fourth quarter of 1995 (the Treasury forecast is 2.75 per cent). Base rates will start to rise early next year and peak at 7.5 per cent in early 1996, according to *LBS*, before falling ahead of the general election.

*In an essay accompanying* the forecast, Mr Currie and Mr Sentance argue that one way in which chancellor of the exchequer could avoid another "boom and bust" cycle in the UK is to give full responsibility for monetary policy to the Bank of England.

*Meanwhile*, the forecasting group of the Society of Business Economists also predicts that underlying inflation will rise in 1995 – to 3.6 per cent, near the top of the government's 1-4 per cent target range. Headline inflation, which includes mortgage interest payments, will hit 4.3 per cent next year, according to the society. On economic growth, the society *predicts that GDP* will rise by 2.8 per cent this year and by 2.5 per cent in 1995.

### Hot car man walks free

An engineer who electrified his high performance car to deter thieves walked free from the Old Bailey yesterday. A *jury took less than an hour* to clear 48-year-old Roderic Minshull of assault and causing a noxious thing (electricity) to be administered.

The trial, described by the prosecution as a test case, arose after a security guard at the Kensington Hilton in *central London* received a slight shock when he examined the £17,000 white Ford Sierra Cosworth.

Mr Minshull, who wired the car with cattle fencing after thieves repeatedly tried to steal it, said he would not use the device again but was going to get rid of the car as soon as possible and get a diesel van instead.

His only intention was to protect his property, and as a qualified electrical engineer he made absolutely sure the car was safe and would not cause serious injury.

Mr Minshull and his wife Lynda said they sought advice from police but were not told the device might be illegal and *lead to a prosecution*. His solicitor said the verdicts did not give the green light to other motorists to wire up their cars.

### US bank gets nuclear role

Nuclear Electric, state-owned electricity generator, has appointed Morgan Stanley, *US investment bank*, to advise on privatisation. It says the bank will be looking at different ways of restructuring assets and liabilities as well as acting as a bridgehead with the international financial community.

### Samsung to invest £11m

Korean-owned Samsung Electronics announced a £11m expansion at its Billingham, Teesside colour television manufacturing plant.

The investment, towards which the Department of Trade and Industry is providing £2m in Regional Selective Assistance grant, is expected to create 240 jobs over the next three years.

The plant, currently employing 300, is Samsung's only western European *television factory. The* company, Korea's largest manufacturer, at present makes one eighth of the world's television screens.

### Ten 'ghost towns' threat

Ten town centres could become "ghost towns" in the *next decade* unless action was taken to curb development of out-of-town shopping centres, the Commons environment committee heard.

Mr Martin Chase, director of the Association of Town Centre Management, told the committee - which is conducting an inquiry into shopping centres and their future - that the problem was most acute in larger towns and *cities* whose centres were given over largely to retail activity. If more attractive regional shopping centres appeared nearby, these could draw away substantial numbers of shoppers, he said.

The association cited Gateshead, in north-east England, Dudley in the West Midlands, Sheffield in South Yorkshire, and towns near the Lakeside centre in Essex as examples of those which had already been severely affected by out-of-town developments. "One retailer estimates that 95 per cent of the business that has been generated in Lakeside has come fr*om business lost in* other stores within the Lakeside catchment," it said.

### Equitable Life beats new code

Equitable Life, one of the UK's largest mutual life offices, is *to offer customers* fuller information about financial products, including charges and costs, six months before the new regulatory regime becomes compulsory.

Despite scepticism from some other life insurers, *it* believes it can gain a competitive advantage by being the first to introduce greater disclosure into its sales process, particularly as its costs are low as a proportion of its premium income. Its new system will come into effect from *tomorrow*.

The move is in contrast to more general industry reluctance or outright opposition towards regulatory efforts to ensure that sales agents volunteer better information to customers.

### IT specialists criticised

Information Technology consultants do not provide good value for money, according to a survey of companies and public-sector organisations. The survey found that clients are unhappy about the effectiveness of completed consultancy projects and the understanding which IT consultants have of their business.

*UK organisations spend* an estimated £750m a year on IT consultancy, according to the survey. One-third of clients surveyed spend more than £100,000 a year on IT consultancy, with budgets running as high as £10m.

### Times aims for 750,000

Circulation of The Times newspaper at a price of 20p could rise to 750,000, double the sales a year ago, according to senior News International executives.

Since the second price cut last week in response to Mr Conrad Black's decision to cut the price of the Daily Telegraph from 48p to 30p The Times has been selling at around the 600,000 mark and close to 620,000 on Saturday.

"More people are trying the paper and more people are liking it and staying so therefore 750,000 is a reasonable target," said Mr Peter Stothard, the editor of The Times.

# Life after linseed

Waste straw left over from farmers' linseed harvest could be put to use making biodegradable matting for soaking up oil spills. This was one finding from a project to investigate industrial uses for fibre crops.

*The £1.9m Fibrelin project*, co-ordinated by the Silsoe Research Institute in Bedford, is looking at new ways of using the straw which is normally discarded after the harvest of the bright blue linseed crop. *The crop is grown for its oilseed* which is used in animal feed and industrial processes.

"It will add significant value for farmers by creating a new market for another part of the crop," says David Bruce, project co-ordinator. The government is partly funding the three-year *project to find non-food* applications for farm crops. Demand for natural fibres from the fashion industry is currently high, but Bruce is looking at more stable industrial markets for their long-term potential.

*The linseed fibres can be made* into non-woven textiles for use in matting such as carpet underlay. Biodegradable mats can also be used to stop erosion on newly-disturbed soil, *eventually decaying and leaving* no residue.

It is the absorbency of the *matting that makes it suitable* for soaking up oil spills. Bruce says the National Rivers Authority is looking at the potential of the fibre mats for use in pollution control.

A decorticator machine which separates and combs out the fibres from the linseed straw will enable commercial production of the mats. The *machine, to be in use by* September, also separates the central woody core which can then be used to make boarding.

The Fibrelin project comprises five industrial companies and five research institutes. It is also investigating the potential of other crops such as nettles.

**Deborah Hargreaves**

Pain-killers are improving but the search is slow, says **Clive Cookson** in a series on drug discoveries

# Shooting for new heights

No other pharmaceutical sector is so dependent on two such ancient families of drugs as the $5bn-a-year (£3.2bn) pain-killer market. For severe pain doctors can do *no* better than stupefy patients with *chemicals derived from the opium* poppy, notably morphine and diamorphine (the pharmaceutical name for heroin).

For mild pain the standard is still aspirin, based on a simple compound found in willow bark and developed industrially in 19th-century Germany. It is the model for a large *family known as* Nsaids *(non*-steroidal anti-inflammatory drugs) which combine analgesia – the medical term for pain relief – with a tendency to reduce inflammation.

The only radically new drug in the sector is sumatriptan (trade name *Imigran) launched by Glaxo* of the UK in 1991 to relieve migraine headaches. It works by reducing the swelling of blood vessels in the head, which is a primary cause of migraine.

Sumatriptan is on its way to becoming a *blockbuster*, with analysts predicting sales of more than $1bn a year in the late 1990s, because migraines are quite common, affecting 10 per cent of young adults, and the drug commands a high patent-protected price (£7 per tablet or £17 per injection in the UK).

*But sumatriptan is designed only* to treat one specific cause of pain. There is no immediate prospect of such innovative drugs being introduced for other important causes of pain or for general analgesia.

Looking further ahead, scientists are much more *optimistic*, as they make progress in understanding *exactly how people feel pain. Once* the biological mechanisms are understood, pharmaceutical researchers can design drugs to block pain.

"This is an extremely lively time in pain research," says Clifford Woolf, professor of neurobiology at University College London. "The *research could lead to major* new pain therapies, after a long period in the doldrums when we essentially relied on aspirin-type drugs, morphine and local anaesthetics."

Pain evolved as the brain's warning signal to the body. It may be a warning to get out of harm's way or to protect a limb or organ that is suffering from injury, disease or over-exertion. There are pain recep*tors throughout* the body, which fire signals via the nervous system to the brain where they are translated to feelings of pain at the appropriate site.

In principle, therefore, pain-killers can either act peripherally at the site of the painful stimulus or centrally on the brain and central *nervous system. In practice*, researchers are only just beginning to disentangle the central and peripheral effects. The conventional idea that morphine and opiates act centrally, while aspirin and Nsaids act peripherally, turns out to be an oversimplification.

"One of the most important developments recently is the realisation that all clinical pain has a large *central component – and that is* changing the whole pharmacological approach to the management of pain," Woolf says.

The key phenomenon, discovered at UCL and other universities, is called "central sensitisation". Nerve cells in the spinal cord become unusually sensitive in response to *painful tissue damage; they then* react in an exaggerated way to ordinary sensations of touch and pressure, which may produce further pain over a long period. In other words, far from getting used to pain, our nervous system becomes more sensitive to it.

This discovery has implications *for the use of existing pain-killers*. In particular, it suggests that "pre*emptive analgesia" is sensible if the* doctor knows in advance that the patient is about to undergo a painful experience such as surgery. Clinical evidence supports this strategy: patients given morphine before an operation suffered less post-operative pain than those receiving the same dose immediately afterwards, even though both groups were anaesthetised during the operation itself. Apparently pre-operative morphine reduced the sensitisation.

Two neurotransmitter (chemical messenger) systems seem to be *involved in the sensitisation effect*. Both are potential targets for new drugs.

In one system, glutamate transmitters act on the NMDA receptor. Chemicals that block the NMDA receptor would be powerful pain-*killers but would probably have* side-effects, since NMDA performs many other roles in the brain.

The other system, in which a transmitter called Substance P acts on the tachykinin receptor, is a more active field for pharmaceutical research. *Glaxo, Pfizer, Merck*, Rhône-Poulenc Rorer and other *companies are working on it. If they* succeed in developing drugs to prevent sensitisation, patients will retain normal feelings while avoiding severe pain.

At the same time, pharmaceutical researchers are working to improve the performance of *Nsaids. As Sir* John Vane, the British pharmacologist, showed in 1971, aspirin-like drugs work by inhibiting the production of prostaglandins, hormones which make nerve endings sensitive to painful sensations.

Recent experiments have shown that an enzyme called cyclo-oxygenase *plays a key role in this* interaction. It comes in two forms, Cox-1 *and Cox-2, which have different* effects on prostaglandin synthesis. Existing Nsaids act on both forms. But their action on Cox-1 produces the side-effects for which Nsaids are known, such as bleeding and stomach ulcers, while action on Cox-2 causes the desired analgesia and anti-inflammatory effects.

*Many drug companies are now* using this information in the search *for more selective Nsaids that act* only on Cox-2. Success would be an important advance because, although the risk of serious side-effects for any individual patient is low (one in 10,000 prescriptions), millions of Nsaids are prescribed every year and the total number of complications is high. Michael Langman and colleagues at Queen Elizabeth Hospital, Birmingham, estimate than in the UK alone 2,000 people are admitted to hospital every year as a direct result of *Nsaid side-effects*.

While the research goes on behind the scenes, the most visible activity in the pain-killer market is the growing range of drugs available without a prescription. In the UK, for example, Napp Laboratories recently launched Paramol, an over-the-counter analgesic containing dihydrocodeine, a mild opiate previously available only on prescrip*tion. It was the first pain-killing* ingredient approved for OTC sale in the UK since ibuprofen in the 1980s.

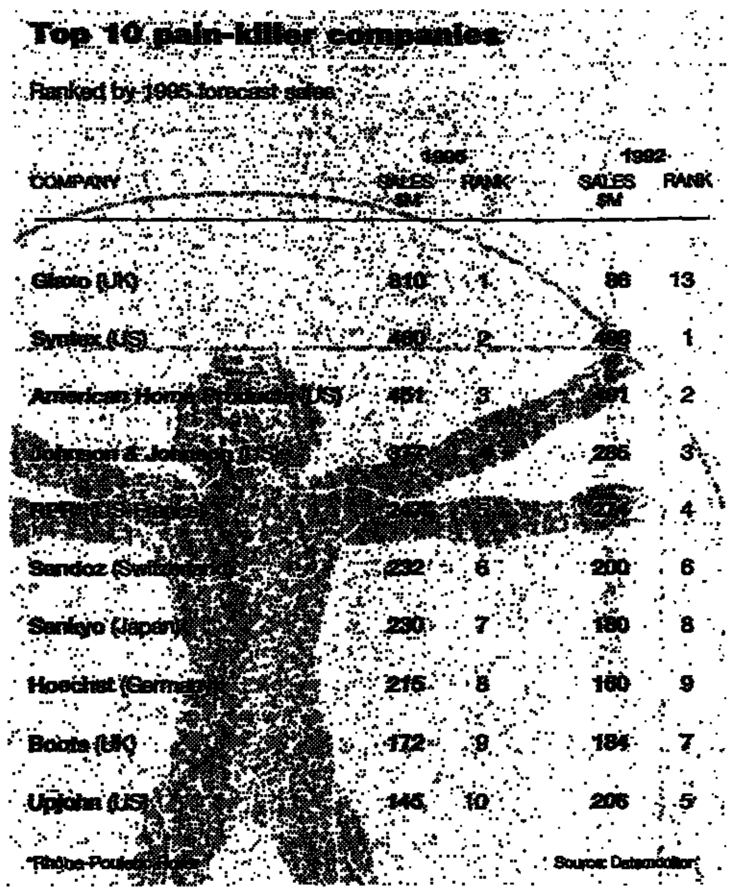
An event of greater significance for the world pharmaceutical industry was this month's launch in the US of Aleve, a new OTC pain-killer, by Procter & Gamble, the consumer goods giant, in a joint venture with *Syntex, the leading analgesics man*ufacturer. (Syntex was taken over last month by Roche of Switzerland for $5.3bn.)

Aleve is based on naproxen, Syntex's best-selling Nsaid, whose patent expired in December. *According to Linc Bynum, who is* responsible for the company's clinical research on pain-killers, Syntex carried out four years of trials, involving several thousand patients, to pave the way for Aleve. Its analgesic effects were compared extensively with *ibuprofen* and paracetamol (known as acetominophen in the US) in people whose wisdom teeth had just been extracted.

All the data had failed to persuade the US Food and Drug Administration advisory committees last year that Aleve should be given an OTC licence, but in Janu*ary the full FDA approved the prod*uct after Syntex agreed to reduce recommended doses and add warnings on the label for children and the elderly.

One feature of Aleve that worried the FDA committees was the fact that it remains active in the body for longer than existing OTC pain-killers. They believed this could lead people to take excessive doses by accident. But Aleve's long life – pain relief lasting eight to 12 hours – will give it a marketing advantage over rivals that need to be taken more frequently.

*The series continues next month with a look at treatments for stroke.*



**Top 10 pain-killer companies**

Ranked by 1995 forecast sales

| COMPANY | 1995 SALES $M | 1995 RANK | 1992 SALES $M | 1992 RANK |
|---|---|---|---|---|
| Glaxo (UK) | 510 | 1 | 86 | 13 |
| Syntex (US) | 490 | 2 | [illegible] | 1 |
| American Home [illegible] (US) | 451 | 3 | [illegible] | 2 |
| Johnson & Johnson [illegible] | [illegible] | [illegible] | 285 | 3 |
| [illegible] | [illegible] | [illegible] | [illegible] | 4 |
| Sandoz (Switzerland) | 232 | 6 | 200 | 6 |
| Sankyo (Japan) | 230 | 7 | 180 | 8 |
| Hoechst (Germany) | 215 | 8 | 160 | 9 |
| Boots (UK) | 172 | 9 | 184 | 7 |
| Upjohn (US) | 145 | 10 | 206 | 5 |

*Rhône-Poulenc [illegible]

Source: Datamonitor

■ Articles over the last six months have looked at pharmaceutical advances in the following areas:

| | |
|---|---|
| Blood products | 27 May |
| Multiple sclerosis | 29 April |
| Sepsis | 31 March |
| *Prostate* | 25 February |
| Wound healing | 21 January |
| Obesity | 23 December |

# Pill caps get smart

If people with epilepsy or severe high blood pressure forget *to take their medicine* they can become very ill and land in hospital. Some people with tuberculosis have developed new strains of the virus resistant to all known antibiotics, simply because they forgot to take their pills.

Non-compliance, medical jargon *for failing to follow* doctors' prescriptions, is a common problem. Researchers have estimated that some 10 per cent of hospital admissions among the elderly are related to this failure. According to some US surveys, non-compliance adds billions of dollars each year to hospitalisation costs.

A small company called Aprex in California's Silicon Valley has come up with a novel approach to the problem – a computer chip in the cap of a bottle that records each time the bottle is opened. The cap looks like the face of a digital watch, showing the time and date and telling patients how long it has been since they last opened the bottle. In some models an alarm will ring when it is time for a pill to be taken.

*Data from the smart-bottle* technology, dubbed Medication Management System or Mems, can be transferred to doctors' computers. "This technology offers doctors another diagnostic tool," says Janice Wohltmann, who heads Aprex. "When patients aren't getting better, doctors can assess whether that is due to non-compliance."

Some 50 pharmaceutical companies worldwide have used Mems in clinical trials of new medicines, to see if patients followed drug regimens. Data is fed through the Mems system to the drug companies.

The companies are being pressed *to show that their pills* are cost-effective. John Urquhart, a co-founder of Aprex, believes that smart bottles may be just what they need to show that taking medicine on time can save money.

**Marjorie Shaffer**



**LEGAL NOTICES**

Notice of Appointment of Liquidator
Voluntary Winding Up
(Members or Creditors)
Pursuant to Section 109 of the Insolvency Act 1986
BIKUBEN-WHITEFRIARS LIMITED
Company No: 2283470. Name of Company: Bikuben-Whitefriars Limited. Previous name of company: Whitefriars Limited. Nature of business: Financial Services. Type of liquidation: Members. Address of registered office: St Andrew's House, 20 St Andrew Street, London EC4A 3AY. Liquidators name and address: Timothy Richard Harris, St Andrew's House, 20 St Andrew Street, London EC4A 3AY. Office holder number: 2129. Date of appointment: 20 June 1994. By whom appointed: Members.
Date 21 June 1994

ADVERTISEMENT TO CREDITORS TO SUBMIT CLAIMS
THE INSOLVENCY ACT 1986
BIKUBEN-WHITEFRIARS LIMITED
(In Members Voluntary Liquidation)
NOTICE IS HEREBY GIVEN that the creditors of the above named company are required on or before the 31st day of July 1994 to send in writing their names and addresses and the particulars of their debts or claims, if any, to Timothy Richard Harris of COOPERS & LYBRAND, St Andrew's House, 20 St Andrew Street, London EC4A 3AY the liquidator of the said company, or in default thereof they will be excluded from the benefit of any distribution made before such debts are proved.
DATED this 21st day of June 1994
Timothy Richard Harris
Liquidator
This notice is formal: all known creditors have been paid or provided for in full.



# PEOPLE

## New broom sweeps through Macdonald Martin Distilleries

Geoffrey Maddrell, aged 57, chairman of ProShare, succeeded *David Macdonald* as chairman of Macdonald Martin *Distilleries yesterday*.

At the same time, Macdonald Martin – best known for Glenmorangie single malt whisky – announced that Neil McKerrow, the group's 49-year-old managing director, had resigned from the board.

McKerrow, whose resignation was a *surprise*, joined the group in 1975 as sales and marketing *director and took over* as managing director in 1987. He is credited with the building of the Glenmorangie brand.

The new chairman paid tribute to McKerrow for developing "a sound platform for the *strategic development of the* company in the UK and inter*national markets". However*, Maddrell said he had decided that the company now needed "a different approach" and added that he felt "it was the right time to make a change". He said the parting was amicable.

McKerrow was employed on a three-year *contract and* Maddrell acknowledged yesterday *that there will be some form of* compensation payment but that this was now "the subject of negotiation".

Maddrell is a former chief executive of the Tootal textiles group which was taken over by *Coats Viyella in 1991 and* joined the Macdonald Martin board as an *independent* director in January.

One of his first tasks as chairman will be to establish the next phase of development for Macdonald Martin and appoint a new managing director – a process he hopes to complete over the next few *months*.

Macdonald, who remains on the board as a non-executive director, retired as chairman after reaching 60 and having served the company for 43 years.

## Non-execs

■ Franz Humer, chief operating director of Glaxo Holdings, at CADBURY SCHWEPPES.

■ Denis Cassidy, chairman of The Boddington Group, Ferguson International *Holdings, The Oliver Group* and The Saxon Hawk Group, at COMPASS GROUP.

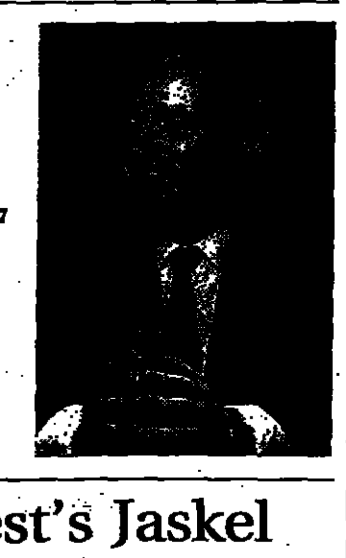
■ Gary Allen, md and chief executive of IMI, at The LONDON STOCK EXCHANGE.

■ Robert Shrager, corporate *finance director of Dixons* Group, at RJB MINING.

■ Patrick Hammond-Turner has resigned from STYLO.

■ *Jean-Pierre Cuny (right)* is appointed chief executive of BPB Industries as from August 1. Deputy group chief executive and chairman of the Gypsum division since December last year, Cuny, a French citizen aged 54, has been with the group since 1977 *and became chairman and* md of Placoplatre, the main operating company in France in 1986.

He is currently president of Europgypsum and a former president of the French *association of building* materials producers (AIMCC). He succeeds Alan Turner who will continue as chairman.

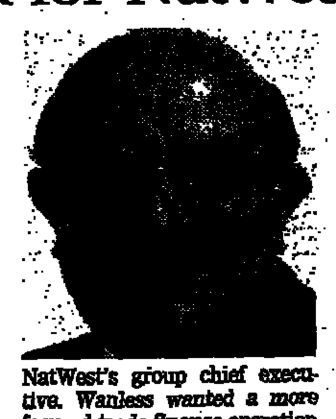


## Global task for NatWest's Jaskel

Martin Jaskel, 48, a former gilts salesman, has been given the job of welding National Westminster Bank's various trade finance operations into a single global business.

Jaskel, who joined NatWest in 1990 *after* a career with various City stockbrokers, has been appointed to the new post of managing director, global trade and banking services. He will be responsible for co-ordinating the development of the international trade activities of the bank's four main *operations* – NatWest Markets, UK branch business, NatWest Bancorp and *international* – and will have a staff of around 1,800. He will report to Roger Byatt, deputy chief executive of NatWest Markets.

Jaskel's new post is a result of a three-month project he carried out for Derek Wanless,



NatWest's group chief executive. Wanless *wanted a more* focused trade finance operation which could be expanded on a global basis and would utilise the synergies that exist within the group. As part of the change, two new businesses are being created: structured trade finance, concentrating on large corporates' specialised needs; and a banking institutions group, responsible for marketing high value-added products.

Jaskel is not being replaced *as director, global marketing* in NatWest Treasury, and his responsibilities will taken on by the three regional directors.

■ Michael Kershaw, 42, head of project finance at British Telecommunications, has joined Samuel Montagu to *head its new project advisory* and finance unit. The new unit, part of *Montagu's specialised* financing division, will concentrate on advising and arranging finance for projects in the UK and continental Europe. Kershaw's background is in the utilities and construction industries. Before joining BT, he worked for Balfour Beatty and Hawker Siddeley.

## Bodies politic

Sir Martin Rees of Cambridge University is to become the 15th ASTRONOMER ROYAL. The Queen has appointed him to succeed Arnold Wolfendale of Durham University next *January to a post created by* Charles II in 1675.

The Astronomer Royal lost his responsibilities in 1972, when the position was detached from the directorship of the Royal Greenwich Observatory. Now it is purely honorary, carrying no stipend and no duties beyond a general obligation to act as an ambas*sador for astronomy*.

Rees, 52, is a distinguished cosmologist who already devotes a lot of energy to popularising the subject. "The Astronomer Royal is now rather like the Poet Laureate," he says. "There is no analogous post for the other sciences – *no Chemist Royal or* Master of the Queen's Physics – so one should take every opportunity to speak up not only for astronomy but for science as a whole."

Rees will have plenty of opportunity to do that next year, when he will also be *President of the British Association* for the Advancement of Science.

Wolfendale, 67, has spoken out not only for astronomy but also for scientific *Christianity* during his three years in the post. He made a notable contribution to BBC Television's Songs of Praise broadcast from Durham Cathedral last November, using the building's great rose window as an analogy for the history of the universe *after the Big Bang*.

■ Stephen Cooper, md of Wrekin Pneumatics, has been elected chairman of the BRITISH FLUID POWER DISTRIBUTORS ASSOCIATION.

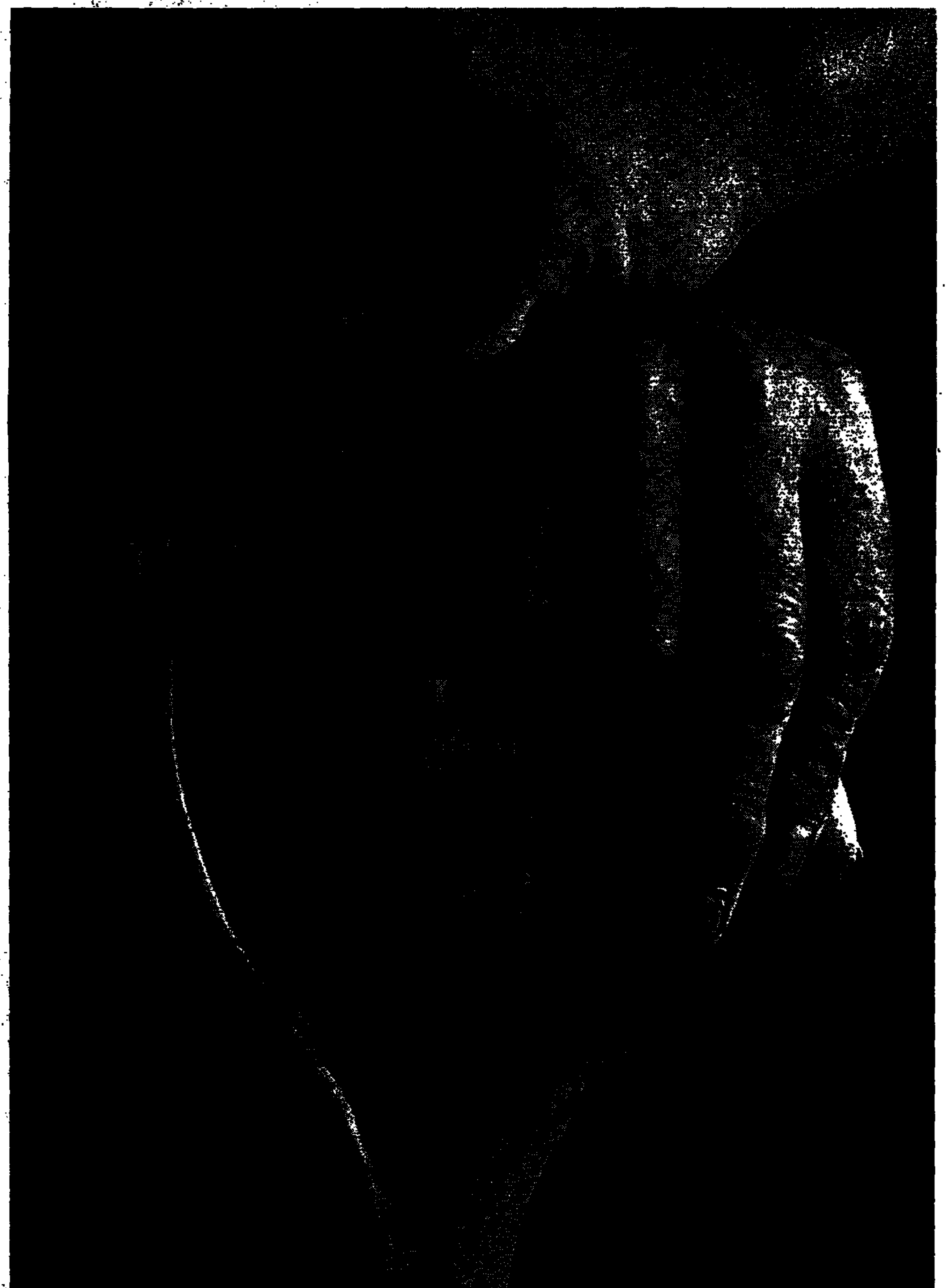
■ Michael Osborne, formerly an economist *at the Bahrain* Institute of Banking and Finance, has been appointed director of education at the ASSOCIATION CAMBISTE INTERNATIONAL, the international foreign exchange dealers' association.

■ Peter Hughes, chairman and md of Steelfounders and Engineers, has been elected UK president *of the Institute of* British Foundrymen.

■ Tony Allen, former *chief* executive of the Royal County of Berkshire, has been appointed chief executive of the NATIONAL HOUSE-BUILDING COUNCIL.

# Ritratto Italiano.

1994 witnesses the birth of a new Group combining tradition, care, culture, and value – in fact, the best of Italy. The "Cirio" Group is born – a Group built around the name of a great Italian entrepreneur with a constant commitment to quality. The Group gathers together companies and brands as prestigious as Ala, Berna, Cirio, De Rica, Matese, Optimus, Polenghi, Solac, Stella and Torre in Pietra. Each of these names has been contributing, over the years, to Italy's industrial and economic development. Each has built an international reputation by remaining true to their consumers and to a common cause: a love of the land and an infinite respect for its fruits. It is this cause, maintained and developed through the most advanced technology, that, beginning today, makes the "Cirio" Group a world-wide industrial and financial reality that Italians can be proud of.



And it's impossible not to be proud of "Mr. Cirio" who, so many years ago had the inspiration to protect high quality tomatoes in a practical tin. The same man who created a precedent in Italy by transferring production from north to south, demonstrating, through investment, the unity of the national territory. We are also proud of "Mr. Polenghi", who, all those years ago, rationalised milk production by introducing selection, quality control and hygiene, from cattle feeding to the milk preserving process. A demonstration, once again, of how industry and agriculture go hand in hand. It all started between 1860 and 1870. Since then, after endless technological and scientific advances, nothing has changed. We have retained the same devotion to food and the same creativity and dynamism. That's why we say with pride, that in the "Cirio" Group, it is not difficult to recognise a piece of Italy we love. It is a true Italian portrait.

CIRIO

BIANCO, ROSSO E FUTURO.

*The Cirio Group brands are: Ala, Berna, Cirio, De Rica, Matese, Optimus, Polenghi, Solac, Stella, Torre in Pietra.*

The craze for football has spawned a huge consumer market, writes **Emiko Terazono**

# Soccer scores in Japan

Yukari Akasaka, a 35-year-old housewife living in Shizuoka, central Japan, does not want to think about how much her family has spent on soccer. Since Japan's professional soccer league kicked off in May last year, the Akasakas have spent Y3m (£19,000) on a van to transport the family of five to local club games, bought Y80,000 of team jerseys and other paraphernalia, and spent more than Y40,000 a month on tickets. "We would be rich if we saved all we spent," she says.

The Akasakas are among the 17m Japanese caught up in the recent craze stirred by the J-League, now in its second year. In spite of the national team's failure to win a place in this year's World Cup, spectators have continued to crowd the stadiums. A huge consumer market has evolved.

Hopeful that the popularity of the league will rub off on them, manufacturers have adorned their products with the J-League logo. Products so emblazoned include beer, cornflakes and electronic pagers, while on television soccer players are advertising men's wigs, curry and mosquito repellent.

The J-League market, with merchandise revenue estimated at Y56bn, advertising totalling Y20bn, sponsor fees at Y19.5bn, is thought to have totalled Y140m in its first year. Some analysts are anticipating direct and indirect spending to total around Y500m. The popularity of soccer has even prompted the government to consider a soccer pools scheme.

A large part of the league's commercial success is down to astute marketing and campaigning by leading advertising agency Hakuhodo. After a range of feasibility studies and market research (until then used only for consumer goods marketing), the agency launched a Y200m media campaign in 1991.

Unlike Japan's fragmented baseball league, J-League controls the design, marketing and sales of items related to its 12 member teams, and splits revenue from the goods, advertising and television sponsorship fees equally among them.

The success of the J-League is also due to the way it has filled a vacuum created by waning support for baseball and sumo, which embody traditional Japanese values. The younger generation, more individualistic and westernised, are bored by the stoicism of sumo players and shun the collective effort of baseball in favour of the Japanese style of soccer which focuses on the star players.

It is the glitzy image of the fashion-conscious stars and their un-Japanese displays of emotion – hugging, kissing and dancing after goals, or wailing and ranting after lost games – that have captured the hearts of young Japanese. Wearing team jerseys and colourful face paint, the fans cheer their role models on, chanting, dancing and hooting horns throughout the games.

The many foreign stars have added to the international appeal of soccer. Most of the league's leading players are not Japanese and many of the coaches and team staff are also imported. Baseball, however, still treats foreign players as outsiders, while sumo is still queasy about awarding champion status to foreigners.

Another ingredient in J-League's success has been the corporate support achieved during the late 1980s. Kazuki Sasaki, spokesman for the league, says that when it first approached companies in 1989 it indicated that a team would need up to Y1bn in corporate contributions a year. Most companies had extra cash and were eager to contribute to philanthropic causes and community-based activities. "We wouldn't have been able to pull it off if it had been a few years later," he says.

Even amid the current slump in earnings, sponsor companies remain happy with the long-term investment. Nissan, the car maker which owns a Yokohama-based club, says the returns justify the costs. It says owning the team also helped the company to communicate with its employees in Sunderland, in the UK, and consumers in other countries.

The league's insistence upon local involvement has also boosted support. The soccer clubs have provided entertainment for the culturally barren provinces, and have instilled a sense of pride and camaraderie in the communities. "Until now there has been nothing to represent Shizuoka," says Akasaka, whose family has made friends with fellow fans.

The main question for J-League officials, corporate sponsors and the players is what happens next. Companies initially pledged financial commitment for 10 years or more, ensuring long-term financial support for the teams. Officials hope for further commercial expansion of the league when two new teams join next year.

But to sustain the current popularity, the standard of players must improve. Investment is also needed in better soccer facilities, including stadiums with capacity of more than 40,000 – existing stadiums hold only about 20,000.

It was beneficial that Japan failed to qualify for this year's World Cup games, says Kuniaki Sasaki, director of Nissan's football club. He believes the loss fuelled the fever. "Fans will stay with soccer for the next four years as they want to know how the national team will fare in the race for the 1998 games."

Japan's dwindling women's football league was revived by corporate involvement but still has some way to go

## Women mean business

Japanese companies may have cashed in on the success of the all-male J-League, but women's soccer in Japan has also benefited from corporate involvement.

Although still relatively unknown, the women's league, established in 1989, has pulled itself out of obscurity due to participation of company teams two years ago. The dwindling league has increased its member teams from six to 10, and advertising by companies has helped double the number of women involved.

However, recent sponsorship has been hit by the recession, and many companies have been forced to scale down their involvement in sport. Kumagai Gumi, a construction company, recently dissolved its baseball and basketball teams, while NKK, a leading steel maker, abolished its volleyball and soccer teams.

Although times have also been tough for the securities industry, Nikko Securities, which owns the Nikko Dream Ladies soccer team, says it remains committed to the sport. Nikko was the first corporate-sponsored team to join the league, and the company has even brought players from Norway and the US to play in the team full time.

"When we first started I was more concerned about the cost and financial returns," says Hitomu Hara, a general manager of Nikko Securities in charge of the team. "But then I realised that there was more to having a team than financial benefit." He says that Nikko now wants to raise public awareness of the sport.

But unlike the J-League, women's soccer may take longer to become popular. Non-Japanese players point out that cultural differences still present barriers in the game. Gunn Nyborg, a former member of the Norwegian national team and now a midfield player for Nikko, says Japanese women players are less driven by the desire to prevail as individuals and try to win through collective efforts as a team.

She also points out that the rise in women's soccer in the west has been closely linked to the women's movement. In a country where equality between men and women has hardly managed to take root, it may take time for the sport to gain wide acceptance.

But unlike in Norway, where the teams are club-oriented and players have a harder time supporting themselves financially, the Japanese corporate system offers security. As long as Japan organises its league system and invests in coaches from Europe, in 10 years' time Japanese female soccer will join international ranks.

# Agencies called to account

Surprising findings come from a new survey, says **Diane Summers**

Advertising budgets in many UK companies were scrutinised and then slashed during the recession. Since then, it is often said, there has been a profound shift in attitudes at the top of organisations.

The claim is that it is no longer possible – as it often was in the past – to justify an advertising budget by looking at what has been spent historically and adding a dollop for good measure. There has been a permanent shift to "below-the-line" activity such as sales promotions, while agencies are increasingly being called to account for their effectiveness.

The truth of these claims is largely borne out by a survey of the largest advertisers conducted jointly for the Financial Times and the Institute of Practitioners in Advertising*. Market researchers Audience Selection interviewed 156 chief executives, finance directors and marketing directors about attitudes to advertising, as well as wider marketing issues.

However, while there has been a sharpening of scrutiny and more demand for accountability, there appears to have been no weakening in the long-term importance of advertising. The IPA concludes that "despite [advertising] industry loss of self-confidence, this study serves to reconfirm the value and status of effective advertising among mainstream advertisers".

Forty-five per cent of the sample considered that advertising was becoming more important to their companies, while a further 50 per cent thought there had been no change. More than three-quarters of the sample disagreed that it was difficult to argue for an increased budget, although half felt the pressure was always on ways to reduce spending levels. Over three-quarters agreed that "the recession has taught us to question marketing spending more than we used to".

Other findings include:

- A move to setting advertising budgets on a "task-related" basis – in other words, according to the job in hand – rather than principally on historical precedent. Finance directors, not surprisingly, felt particularly strongly that this was how budgets should be set: 66 per cent of them, compared with 58 per cent of the overall sample, said task was more important that precedent. Finance directors were a little more likely than respondents overall to view advertising as a cost rather than an investment.
- Almost universal agreement that highly creative advertising can add value to a brand and multiply the value of buying airtime and advertising space. However, there is dissatisfaction with measures used to judge the effectiveness of an advertising campaign: 18 per cent of the sample (and 26 per cent of finance directors) felt their companies were not measuring effectiveness competently.
- An unwillingness to worship at the advertising altar. Overall, about a quarter – rising to more than half of finance directors – agreed with the statement that "the advertising agency is just another supplier". This is not particularly good news for advertising agencies that see themselves as partners with clients, or hope to reinvent themselves as all-round marketing consultancies. About two-thirds of the sample disagreed with the comment that "some of the best marketing brains are to be found in advertising agencies".
- Confirmation of the growing power of retailers. More than half agreed that retailers were becoming a more important focus for marketing activity than consumers, rising to 61 per cent among marketing directors.
- Overwhelming agreement that advertising remains the best tool for long-term brand building. "Below-the-line" activity, such as promotions, was seen by two-thirds as more effective at generating short-term sales gains.

*Copies of the FT/IPA survey are available free from the IPA, 44 Belgrave Square, London SW1X 8QS*

FARAWAY, SO CLOSE (15)
**Wim Wenders**

KIKA (18)
**Pedro Almodovar**

GOLDEN BALLS (18)
**Bigas Luna**

BAD GIRLS (15)
**Jonathan Kaplan**

THE GETAWAY (18)
**Roger Donaldson**

LIGHTNIN' JACK (PG)
**Simon Wincer**

*Otto Sander sits on the Victory Monument in Berlin in Wim Wenders' latest fantasy, 'Faraway, So Close'*

Cinema/**Nigel Andrews**

# The angels who fell to earth

Angels fly about the air in *Faraway, So Close*, Wim Wenders' "sequel" to *Wings Of Desire*, seeking landing strips on a troubled Earth. Beguiling and maddening in equal measure, this film about a state of crisis in modern Europe *embodies* the state of crisis in modern European cinema. Where can those angels we call movie-makers – messengers from one zone of wisdom to another – land in the new chaos of dissolving cultures? And how do you achieve touchdown when air traffic control is run from the Tower of Babel?

Tremble at the mixed-nation cast. Germany's Otto Sander and Bruno Ganz play the volunteer "fallen" angels who try to help the lives and loves of post-unification Berliners. Russia's Mikhail Gorbachev guests through as himself, musing about peace, political harmony and the "sense of existence." And from America Peter Falk and singer Lou Reed play themselves while Willem Dafoe snarls suavely as a symbolic Mephistopheles figure called Emit Flesti (spell it backwards).

When Icarus, mythology's most famous "angel", flew too near the sun he burned his wings and fell to earth in a Brueghel painting. Much the same is happening today to Wenders. With this film following *Until The End Of The World*, Germany's finest living director strives to soar but instead tends to achieve a series of bizarre, offshore splashdowns.

*Faraway, So Close* starts with intimations of mortality and ends with imitations of Alastair McLean. We begin with angel Otto Sander taking human form to help the needy in conflict-ridden Berlin: where the Wall's fall has unified a *polis* but not a people. Then the film marches on towards its jaw-droppingly dotty last act. A raid on an arms vault by an army of trapeze artists; a hi-jacked barge; a mid-air shoot-out; and dear Horst (*The Magnificent Seven*) Buchholz brought out of seclusion to play chief baddie.

Two-and-a-half hours is a long time in European movie-watching. We have metaphysical warblings about time and memory. We have a swell of subplots touching on motherhood, bereavement, Nazi guilt. And via Reed and Falk, we have Wenders re-airing his love-hate feelings about American pop culture.

The movie's aim is to be a massive fable about detente. But what is its effect? With all this multi-thematic flying about, the characters seem less like angels in action, more like bees dementedly sipping at every pollen source in the geo-cultural garden. Next time round, the director of *Alice In The Cities*, *Kings Of The Road* and *Paris, Texas* should surely give us once more a film in which we feel the terra firma of a unified theme and story and a set of believable, terrestrial people.

★

But summer madness is hitting everyone. Like Wenders, Spain's Pedro Almodovar has fallen in love with his own repertory troupe – and repertory tropes. *Kika* is another tale of sex, murder and runaway production design from the director of *High Heels* and *Women On The Verge Of A Nervous Breakdown*.

Lollipop colours scream from the walls as the well-known divas flit through the excuse for a plot. Victoria Abril is the camera-helmeted, Gaultier-dressed reporter from a TV true crimes show; Rossy De Palma is the lesbian maid; and Veronique Forqué is the freelance scatterbrain who undergoes the marathon rape scene which is this film's claim to notoriety. (Every Almodovar movie must have one.)

Newcomer Peter Coyote looks confused as the hero, an American writer dubbed into Spanish. But then what chance does any fresh acting face have in the oeuvre of a man whose work has come to resemble one long blood-and-sperm-spattered fashion show? No need to look for the guilty person in any of these plots. The director did it, aided by his designers.

For a superior example of New Spanish Cinema, try Bigas Luna's *Golden Balls*. This too has a sex scene every five minutes; this too is shot as if by a contortionist with a craze for primary colours. But unlike Luna's last film, the inchoate hymn to machismo *Jamon Jamon*, this movie is choate and even anti-macho. A young man (Javier Bardem) longs to build tall buildings, to match his vaunting virility. But in a tale of funny, fateful symbolic éclat – watch out for the eggs and lobsters – he is undone by his own dreams and by the sharply-characterised women in his life. Commended.

★

Modern dietary wisdom tells us that all food that is good for you tastes awful and vice versa. Cinema is the same. Newest addition to the revisionist Western trend that has given us such flavourless PC epics as *Dances With Wolves* and *The Ballad Of Little Jo* is *Bad Girls*. This shows what happens when four saloon prostitutes decide they have had enough of male exploitation and hit the then little-developed highway known as Old Feminist Trail.

Madeleine Stowe ties on a holster to sort out bandit and ex-flame James Russo. Mary Stuart Masterson eggs the girls on towards Oregon where she has a land claim. (But gosh-damn the MCP lawmakers! She learns she cannot claim it without a husband.) Andie MacDowell escapes from jail and thinks of setting herself up on a farm. And Drew Barrymore has a score to settle with some men in *her* life.

And then there is the dialogue. "If your laws don't include me, then they don't apply to me either." We had that line in *Little Jo*: will it be compulsory in every feminist western? And, as the four women sit round a camp-fire dreaming of owning a sawmill: "We sell our bodies – why can't we sell wood?"

They certainly spend most of the film selling old saws. It took five people to write the story and script for *Bad Girls*: four to type, presumably, while the other fished around in old fortune-cookie wrappings for moral quips and mottoes. Jonathan Kaplan directs, as if he had never made a *good* feminist movie like *The Accused* and *Heart Like A Wheel*.

*The Getaway* wins the Pointless Remake of the Year award. The 1972 Peckinpah film with McQueen and McGraw was no masterpiece; but at least its tale of a hoodlum couple zigzagging across the West with a bundle of bank loot and an unholy alliance of pursuers (FBI posse, rival hoodlum) allowed us two hours of harmless disbelief-suspension.

The new film defies credibility. Alec Baldwin, expert at citified spivs, is the runabout open-air anti-hero. Kim Basinger, she of the lymphatic pout and "Take your time, dear" acting talent, is expected to provide the hair-trigger reaction shots. Between them, as they pound across Arizona/New Mexico in a gas-guzzling script by Walter Hill and Amy Jones (based on Jim Thompson's novel), this couple has all the outlaw charisma of a pair of runaway tax-dodgers seeking a night at a Days Inn.

You may as well shrug off hope for better American things and see *Lightnin' Jack*. This hit-and-miss comedy Western about a man, a young black hostage-turned-sidekick (Cuba Gooding Jr) and an unreconstructed saloon girl (Beverly D'Angelo) has never heard of political correctness. But it has heard of charm and jokes. And it brings back Paul "Crocodile Dundee" Hogan as writer-star, never letting too many minutes go by without putting another quip on the barby.

Theatre/**Martin Hoyle**

# 'Fiddler on the Roof' revived

Any musical whose first three numbers are "Tradition", "Matchmaker, matchmaker" and "If I were a rich man" is unstoppably airborne from curtain up. For its first half at least, *Fiddler on the Roof* is an example of that apparent oxymoron, a great musical. Like some of my colleagues, I believe that serious subjects should be treated as opera or stay as spoken theatre; anything in between tends to turn out shallow and bathetic. But throughout Act 1 of this classic 1964 show, currently revived at the London Palladium, the impetus of words and music are enough to quieten doubts; even to overcome the occasional hint of under-rehearsed dance or over-relaxed star.

For Topol is back in the town which launched his international fame in this role. As noted in the Manchester revival half a dozen years ago, his familiarity with the part of Tevye the milkman has led to effortless mastery. He can express more with eyes wordlessly widened in mock-modest amazement than most other actors do by tearing a passion to tatters. Although he still begins "If I were a rich man" with rapt, pent-up glee (is it *lèse-majesté* to see a line of descent from Fagin's "I'm reviewing the situation", another sinuously rambling wishful fantasy, in Bart's *Oliver?*), his relationship with God (still situated in the gallery, house left) has grown more casual with the years. The respectful man-to-man tone of Tevye's grumbles, queries and gentle reproofs to the deity has taken on a genially hectoring note that suggests he might withdraw his allegiance if pushed too far. Whose show is it anyway?

Ultimately Shalom Aleichem's, of course. His short stories about the Jewish communities in small-town Tsarist Russia provided the basis for Joseph Stein's book and Sheldon Harnick's lyrics; a cultural framework that enables Jerry Bock's music to tap a rich mine of musical reference in eastern European modes, oriental rhythms, a touch of the gypsy; a ready-made idiom that combines gaiety with minor-key melancholy and the constant possibility of tribulation.

The first act's strength lies in its consistency. In Act 2 Broadway comes to Anatevka: a number like "Now I have everything" could belong anywhere on the Great White Way. And for a while the piece shows its padding; the plot by now is episodic, no more than the story of how Tevye's daughters find unsuitable attachments, one after the other. But Tevye's unforgiving attitude to Chava's love for a goy adds grit to the soft centre; and this production (Sammy Dallas Bayes, reproducing Jerome Robbins' Broadway original) gains from excellent casting that differentiates between the girls – the timidly proud eagerness of Jacquelyn Yorke's love for her poverty-stricken little tailor, Jo John's sturdy determination to join her student radical in Siberia, the bookish quietness of Adi Topol-Margalith's Chava.

Admirable support, among others, from two ex-Royal National Theatre players: Peter Darling, whose militant young-idealist is a trial run for the Chekhovian eternal student, and Sara Kestelman, beautifully restrained and touching as Tevye's sharp-tongued, loyal wife. And only the most rigidly orthodox will object to casting, as the butcher, an actor called Bacon… The set bears Boris Aronson's name, as in the original production, but looks rather more like a Christmas card than the Chagall it once evoked. Small quibbles apart, the show is confirmed as simply one of the best Broadway musicals, with a courageous ending that makes *West Side Story* look sickly-sweet in comparison. The Jews are expelled again. The coloured backdrop is blank, suddenly abstract. Matchmaker Yente cheerfully decides to aim for the Holy Land: "Next year in Jerusalem". Others go to America. Some make for Cracow and Warsaw, perhaps westernised Germany. Are they the lucky ones? *Fiddler on the Roof* offers no easy comfort for what may lie in the years ahead.

At the London Palladium (071-494 5020)

# Russian drama in Paris

Russia's first big season in Paris was in 1909, with Diaghilev's Ballet Russe. Now, Théâtre De L' Europe Odéon in Paris has decided to revive the tradition. It has announced a Russian season, this time of drama, and invited two directors – Lev Dodin, the well-known artistic director of the famous Maly Theatre from Petersburg; and the completely unknown 25-year-old Ivan Popovskii, director of the new Studio of Petr Fomenko.

"This was a huge risk", says the Odéon's director, Borja Sitja, "but we wanted to give a chance to a young Russian company". For the young Russian company, however, touring in the west is not just a chance to show their work to the world, but also the only way to survive economically; Lev Dodin's company, for example, spends more time abroad than in Russia – prompting the Russian critic Anatoly Smelyanskii to remark: "It will soon be necessary to set up a Russian season in Moscow, not in Paris". But the young actors of Fomenko Studio realise the primary importance of their work in Russia.

For the Russian season in Paris, Ivan Popovskii did not just chose a "typically Russian play" but one which interested him artistically: Aleksandr Blok's *The Show-Booth*, or *Baraque de Foire*, which is little-known in the west and rarely done in Russia. Written in 1906 and originally not intended for theatre, this "lyric drama", as Blok called it, was produced the same year by the great Vsevolod Meyerkhold and was seen as a sign of a new century.

In this symbolistic drama, mysticism and death are confronted with the life-enhancing theatre element in the form of commedia del' arte characters. Pierrot, Colombina and Harlequino break through the boundaries of their stories and start living lives of their own. Death turns into Colombina; masks conceal facelessness; Harlequino breaks through the window made out of paper and the whole world turns out to be just a dream.

Ivan Popovskii's production lacks any tragic atmosphere. This young director is not interested in linking his work to the modern history; his imagination is occupied with theatrical effects. Although not the most deep, it is certainly one of the most beautiful productions done by a Russian company in recent years. The scenery, designed by Vladimir Maximov, plays a role of its own.

The production turns into a series of beautiful pictures, full of breathtaking, almost cinematographical, effects. In the last scene all the characters walk out through the white walls of an irregularly shaped room, made out of paper, leaving man-size dark holes. The wind makes the scraps of paper tremble and a draught brings into the room a strange woman in black who goes through the lighted aisle of the auditorium and disappears in darkness.

This strange, dark figure comes from another play by Blok, *The Unknown*, or *L' Inconnue*, a play about vulgarity, a poet and his illusions. Here Popovskii has given the poet the opportunity to meet his double from *Show-Booth* – Pierrot. These two romantics, one in black, the other in white, go through the series of Popovskii's tableaux like two Picasso figures, never looking at each other but as if connected by an invisible string.

Popovskii's production reminds one that besides everything else, theatre can be beautiful and rich in its visual effects. The main problem of this production in Paris, however, is that the lighting, scenery and sound effects take the priority and leave little space to actors and the author. Popovskii gets carried away by theatre facilities that are not available in Russia. Like someone who has not eaten properly for a long time, he falls upon the cakes and forgets about the meat.

**Arkady Ostrovsky**

*The Show-Booth* tours France next year.

# INTERNATIONAL ARTS GUIDE

## FESTIVALS GUIDE

Starting this week and continuing till the end of August, the Arts Guide will focus each Wednesday and Thursday on summer festivals.

### ■ FRIBOURG

The annual festival of sacred music in the Swiss town of Fribourg opens tomorrow with a concert by the Suisse Romande Orchestra and Chorus conducted by Neeme Järvi, featuring music by Denisov, Liszt and Stravinsky. The festival continues with daily events till July 10, with guest artists including the North German Radio Chorus, the Moscow Patriarchy Orthodox Chorus and the Choir of New College Oxford (037-232555)

### ■ GLYNDEBOURNE

The new theatre has made a cracking start with Le nozze di Figaro starring Renée Fleming and Alison Hagley (next performances July 3, 8, 12, 15), Graham Vick's new staging of Yevgeny Onegin with Yelena Prokina as Tatyana (July 1, 6, 11, 14, 20, 24) and a revival of Glyndebourne's classic production of The Rake's Progress in David Hockney's sets (July 4, 9, 16, 21, 27, 30, August 2, 5, 8, 11, 14). The next new production is Don Giovanni, staged by Deborah Warner and conducted by Simon Rattle, with a cast led by Gilles Cachemaille (first night July 10, repeated July 13, 17, 22, 26, 29, August 1, 4, 7, 10, 13, 16, 19, 21, 24). Trevor Nunn's 1992 production of Peter Grimes is revived on July 31 with a cast headed by Anthony Rolfe Johnson and Vivian Tierney (0273-541111)

### ■ LA ROQUE D'ANTHERON

The castle grounds of La Roque d'Anthéron, equidistant from Marseille and Avignon, provide a serene Provençal setting for a piano festival of increasing international renown. Joaquim Achucarro is soloist in the opening concert by the Novosibirsk Philharmonic Orchestra on July 30. Other pianists at the festival include Rafael Orozco, Michel Dalberto, Michel Béroff, François-René Duchable, Aldo Ciccolini, Nelson Freire, Eliso Virsaladze, Jean-Bernard Pommier, Lisa Leonskaja, Stephen Hough and Deszö Ranki. Ends August 21 (4250 5115)

### ■ MACERATA

This year's operas are Carmen (July 16-August 11), La boheme (July 23-August 12) and L'elisir d'amore (August 4-13). The Bizet, conducted by Alain Guingal and staged by Gilbert Deflo, has changing casts including Denyce Graves/Lucia Valentini Terrani in the title role and Neil Shicoff/Fabio Armiliato as Don José. Giusy Devinu sings Mimi in the Puccini, and the Donizetti cast is headed by Valeria Esposito, Pietro Ballo and Enzo Dara (0733-230735)

### ■ OSLO

The Oslo Chamber Music Festival (August 3-13), founded by the violinist Arve Tellefsen in 1989, has quickly won a reputation for its musical quality. Concerts take place in churches, castles and concert halls around the city. This year's programme focuses on Britain, with music ranging from Byrd and Bridge to David Matthews and Oliver Knussen. The Nash and Hilliard Ensembles are taking part, while Truls Mork will play Elgar's Cello Concerto and Yuri Bashmet gives a viola recital (2255 2553)

### ■ RAVENNA

This north Italian town is Riccardo Muti's home, and he has become the main force behind the annual festival. Wolfgang Sawallisch brings the Orchestra of La Scala Milan on Sun, with a programme of symphonies by Mendelssohn and Schumann. Next Wednesday, Gianluigi Gelmetti conducts the Orchestra and Chorus of Bologna's Teatro Communale in Rossini's Messe Solennelle. Other highlights include the Philharmonia Orchestra with Myung-Whun Chung on July 11, a production of Norma conducted by Muti and starring Jane Eaglen (July 16, 19, 21, 23) and Verdi's Requiem conducted by Muti on July 20 and 22 (0544-32577)

### ■ SANTA FE

This year's festival opens tomorrow with a new production of Tosca, conducted by John Crosby, staged by John Copley and designed by John Conklin, with a cast headed by Mary Jane Johnson, Neil Rosenshein and Timothy Noble. The second new production, Il barbiere di Siviglia, follows on Saturday, in a staging by Francesca Zambello conducted by Evelino Pido, with a cast headed by Delores Ziegler. The third new production is Die Entführung aus dem Serail (July 16), staged by Graham Vick and conducted by Kenneth Montgomery. John Crosby conducts a revival of Göran Järvefelt's 1984 production of Intermezzo on July 23, with Sheri Greenawald and Dale Duesing as the Storchs. Judith Weir's Blond Eckbert receives its American premiere on July 30. The festival comprises 38 performances in the nine weeks till August 27 (505-989 7012)

### ■ SAVONLINNA

No one who visits Finland's premier summer festival can fail to be impressed by the stone castle courtyard in which it is held. Poised on the edge of a lake, Olaf's Castle (Olavinlinna) is an outstanding outdoor location for opera. The 1994 programme (July 6-30) is one of the least distinctive of recent years, with a revival of last year's successful production of Verdi's Macbeth (till July 19), the evergreen Die Zauberflöte (till July 15) and a visit from the Hungarian National Opera. One of the more eye-catching events is a student production of Yevgeny Onegin in the final week (057-273492)

### ■ SPOLETO

This year's Spoleto Festival, which opened last week, is spearheaded by two productions in the Teatro Nuovo: Wozzeck staged by avant-garde German director Günter Krämer, and a Poulenc double-bill pairing his surreal opera Les mamelles de Tirésias with a reconstruction of Nijinska's original choreography of Les Biches. There are also performances by the Martha Graham Dance Company and Roland Petit's Ballet National de Marseille, plus an Italian-language production of Arthur Miller's The Last Yankee. The festival ends on July 10 with a performance of Beethoven's Ninth Symphony in the cathedral piazza, conducted by Christian Thielemann (0743-40265)

### ■ TANGLEWOOD

A warm-up series of concerts this weekend features Wynton Marsalis, Liza Minnelli and Nanci Griffith. The gala opening of the new concert hall takes place next Thursday with a line-up including Seiji Ozawa, Jessye Norman, Yo Yo Ma and Peter Serkin. The Boston Symphony Orchestra begins its summer concert series next Friday. Guest artists this year include Mariss Jansons, Leonard Slatkin, Bernard Haitink, Hermann Prey, Thomas Hampson, Anne Sophie Mutter, Midori, Gidon Kremer, Itzhak Perlman and Ute Lemper (Ticketmaster Boston 617-931 2000 Western Massachusetts 413-733 2500 New York City 212-307 7171 other areas 1-800 347 0808)

### ■ TORROELLA DE MONTGRI

Torroella de Montgri is a small Catalan town 6km from the sea on the Costa Brava, but it is not primarily a tourist resort. The town is architecturally typical of the Empordà and is set in beautifully natural surroundings. The summer music festival (July 8-August 26) mixes Spanish artists of the calibre of Giacomo Aragall and Jordi Savall with international guests such as the Franz Liszt Chamber Orchestra and the Choir and Orchestra of the St Petersburg Capella (072-761098)

### ■ VADSTEJNA

Vadstejna's annual opera festival takes place in the historic buildings of this charming medieval town 250km south-west of Stockholm. This summer's programme opens tomorrow with a Swedish-language production of Cimarosa's 1776 opera I sdegni per amore (The Misadventures of Love), which runs till July 15. The second opera is The Various Adventures of Mrs Björk, a tragi-comedy by Swedish composer Staffan Mossenmark based on a novel by Jonas Cardell. This opens on July 28 and runs till August 12. There will also be an opera gala in the Vadstejna Castle courtyard on August 7 (Tickets 0143-10094 Information 0143-12229)

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# Cock-a-hoop about the single market

BOOK REVIEW

The single European market programme, once more popularly known as "1992", has been arguably the most significant advance in the development of the European Community in recent years. And since Lord Cockfield was the chief architect of that programme, as senior British commissioner in the first Delors Commission of 1985-1989, a book by him on this subject is worth reading.

It has to be said right away Lord Cockfield does not err towards modesty about his performance in Brussels: on the contrary he inclines to a brisk and self-satisfied style of autobiography reminiscent of Field Marshal Bernard Montgomery: "The prime minister instructed me to move my forces to the north. I decided to move them south. And of course events proved me completely right. I won a great victory."

Here's Lord Cockfield on the drafting of the single market white paper: "Much of the white paper on the internal market I wrote myself by hand and indeed I had started drafting before I even came to Brussels. Having been written originally in English, the white paper is an eminently readable document." So there!

Lord Cockfield is as forthright in depicting his battle to maximise his power base in the new Commission. "It was, I said, impossible for me, if I was to complete the job properly and quickly, to be put in the position of having to argue with other commissioners and their officials. I would produce the programme; I would consult in such detail as I thought necessary; I would present the *programme to the Commission*; they could then accept it, modify it or reject it. But I was not prepared to get bogged down in a bureaucratic mess. I was, I said, not simply or primarily a politician; I had run a major British company and I had run it successfully; this was that sort of job and that was the way I wanted to run it."

As the tone of these quotations suggests, Lord Cockfield is not pitching for a readership of technical experts. If anyone hopes to find an in-depth explanation of the single market programme and its 300 legislative proposals, he or she will be disappointed.

**THE EUROPEAN UNION:**
**Creating the Single Market**
**By Lord Cockfield**
*Wiley Chancery Law £9.99*
*185 pages*

Apart from a cursory classification of the barriers between member states – physical, technical and fiscal – there is simply no detail about the programme. What we mainly get is a forceful exegesis of Lord Cockfield's broad strategic objectives, and a touchingly one-sided account of his complete success in bludgeoning his way through the bureaucratic and political undergrowth.

**THE PM and I on VAT**

**Myself: "It was in the *Treaty of Rome*."**
**The PM: "It was not."**
**Myself: "It was."**
**The PM: "It was not."**
**Myself: "It was."**

**"This unproductive conversation was brought to an end by the private secretary being sent to find a copy of *the Treaty of Rome*. I asked him to read out Article 99, which reads as follows: "The Commission shall present proposals for the harmonisation of indirect taxes . . ."**

**"This was greeted in complete silence."**

But the real subject of the book is the long and counter-productive conflict between Britain and its partners. One thing the British have the *greatest difficulty understanding*, says Cockfield, is that the European Community has an in-built tendency towards integration. "The Community always goes forward; never backward," he writes. "At times progress may be slow to the point where it appears almost to have stopped: but in due time progress will be resumed. If what has happened in recent years is anything to go by, people in this country – with distinguished exceptions – simply did not understand this. They thought they had a *tabula rasa* on which they could write anything that took their fancy. They did not; and they could not."

But Lord Cockfield reserves his special scorn for Mrs Thatcher's uncomprehending hostility to Europe. "Deep down Mrs Thatcher was throughout opposed to the Community," he says. "She never understood the Community, neither its philosophy, its motivation, nor indeed its actual policies and legal provisions . . . Her support for the internal market programme was largely based on a misunderstanding. She was convinced throughout that the Community was simply a free trade area with one or two additions such as the Common Agricultural Policy, to which she strongly objected . . . She never seemed to realise that the internal market programme meant that all 12 member states had to conform to a common set of rules and this meant in turn that the rules had to be embodied in legislation."

What emerges clearly from Lord Cockfield's account is that Mrs Thatcher was not really familiar with the Community's basic texts, such as the Treaty of Rome. He had a difficult meeting with her on the subject of the harmonisation of VAT rates in Europe (see box).

Lord Cockfield implies Mrs Thatcher must also have been unaware that the Community was committed to the objectives of economic and monetary union and of a European social policy, through the Stuttgart Declaration of 1983 and the Single European Act of 1987, both of which she had signed.

But in this respect, perhaps, *Mrs Thatcher was only too representative of her compatriots*. Here is Cockfield on the general attitude of British politicians to the Community: "They *recall little of its history*, know nothing of its philosophy; and even more striking is the virtually complete absence of hard, factual knowledge. Perhaps the most trenchant criticism of all is that they were and remain unaware of these deficiencies."

**Ian Davidson**

*ECONOMIC VIEWPOINT*

# Recovery alone is not enough

**By Samuel Brittan**

The golden rule for economic forecasters is: forecast what has already happened and stay at the cautious end. The British Treasury's summer economic forecast obeys both these rules; like other forecasts it tells us more about the present and the recent past than about the future.

Growth has turned out slightly faster and inflation lower than in the official forecast late last autumn when the unified Budget was introduced. These developments have occurred not just in one country but in most principal western economies.

As a result the Treasury has cautiously raised its 1994 forecast from a growth rate of 2½ per cent to 2¾ per cent, these numbers both being ¼ per cent lower if North Sea oil output is excluded. Next year the growth rate is expected to remain at 2¾ per cent with or without the North Sea element. The forecast for the inflation rate has been adjusted rather more. It is expected to remain at 2½ per cent (excluding mortgage interest payments) in the final quarter of 1994 and rise only to 2¾ per cent next year – well within the government's 1-4 per cent target range. The Public Sector Borrowing Requirement projection has accordingly been trimmed back by £2bn a year, nearly all due to higher revenue estimates.

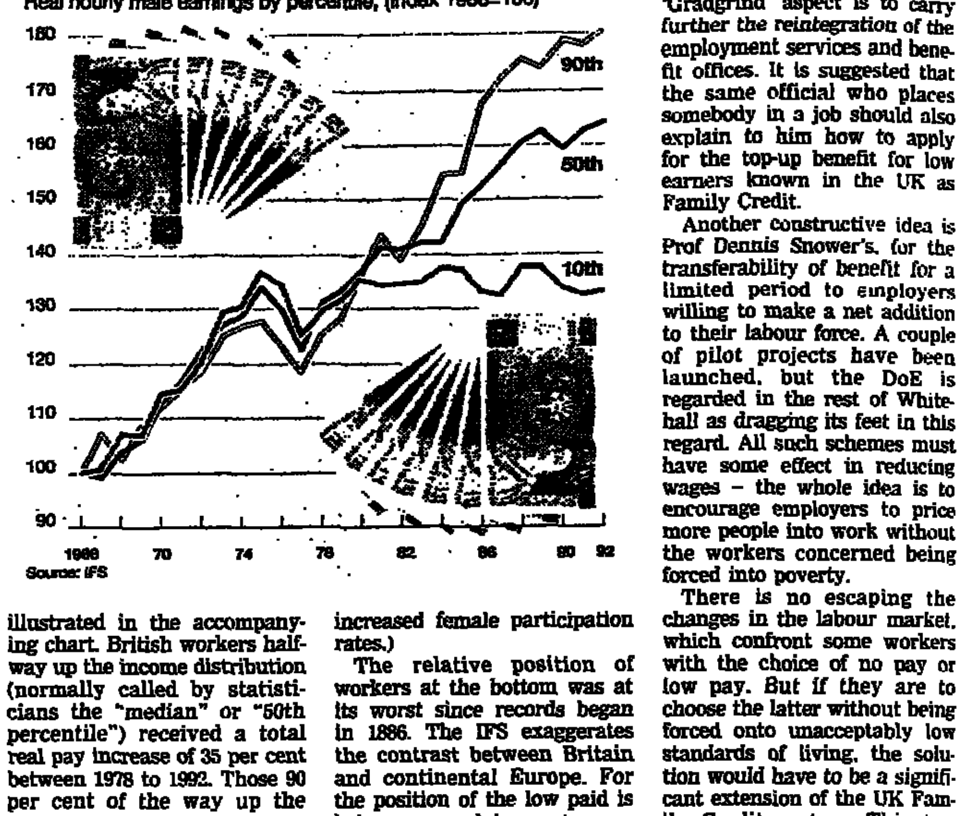
The Treasury insists that inflation tends to fall when the output gap – the difference between actual and potential levels of gross domestic product – is sufficiently high. Officials are confident that there is still a sizeable margin of excess capacity and that there will therefore be considerable further downward pressure on inflation in the medium term. The outbreak of price competition among British newspapers may tell us more about the changed economic climate than the spurt in commodity prices or the fall in bonds.

Indeed it is important for the government not to be panicked by the bond markets into premature restrictive measures. No one country can resist these pressures on its own. But they are something that the finance ministers from the Group of Seven leading industrial countries should tackle together, preferably at meetings where central bank governors are also present rather than at the "summit" to be staged next week as a media event by heads of government in Naples.

In the UK growth has, quite naturally, been consumer-led. Nevertheless the forecast current balance of payment deficit is expected to fall slightly, as a proportion of GDP, to reach 1¼ per cent by 1995. This is the one place where the Treasury is prepared to be more optimistic than its Panel of Independent Forecasters. Indeed import growth is expected to be "slower than usual in relation to the expected growth of demand". Cost competitiveness is put at about 15 per cent better than in the second quarter of 1992, before sterling left the exchange rate mechanism. It is also better than in nearly all of the past 15 years. The need is thus not to achieve "competitiveness" but to keep it and exploit it.

**The widening earnings gap**

Real hourly male earnings by percentile, (index 1966=100)




## Pay and jobs

As usual, the most interesting aspect of the Treasury forecast lies not in the predictions but in the observations made en route. For instance officials admit that employment has yet to show a strong recovery. "The implication is that falling participation in the labour market has made some contribution to the decline in unemployment." Increased participation in further and higher education is one reason for diminished participation rates, but is far from the only one.

Indeed the biggest problem of modern western economies is not the growth rate but the inter-related ones of low pay and unemployment. For the market-clearing pay rates for the less well-off have been squeezed everywhere, showing itself directly in the US and in the form of high and rising unemployment on the continent of Europe. In Britain, the pay squeeze is becoming evident well ahead of the job improvement aspects.

Some new evidence of the extent of the squeeze in low pay has been published by the Institute for Fiscal Studies in a new paper, *What Has Happened To Wages?* The summarised conclusion is stark and is illustrated in the accompanying chart. British workers halfway up the income distribution (normally called by statisticians the "median" or "50th percentile") received a total real pay increase of 35 per cent between 1978 to 1992. Those 90 per cent of the way up the income distribution (the "90th percentile") received a pay increase of 50 per cent. On the other hand workers 10 per cent up from the bottom (the "10th percentile") have not even recovered from the real pay cut they took under the Labour government's pay ceilings of 1975-76. (The figures relate to full-time male workers to avoid the complication caused by increased female participation rates.)

**If the less skilled are to choose low pay rather than no pay, an extension of Family Credit will be needed**

The relative position of workers at the bottom was at its worst since records began in 1886. The IFS exaggerates the contrast between Britain and continental Europe. For the position of the low paid is being squeezed in most countries; and Britain is simply ahead of the others in its move to more flexible labour markets. The IFS explains the disparities partly in terms of high returns to skill and education. But this begs the question of whether these are genuine returns or whether employers are using the educational system as a quality filter to help choose recruits. In any case income disparities have increased even within similar educational groups. So other qualities, such as work attitudes, personal traits and even luck have also become more important.

The British government has been approaching the problem from the angle of structural unemployment. At the moment attention is concentrated on the Job Seekers' allowance, which is to replace both Unemployment Benefit and Income Support. Valuable time has been frittered away on a turf battle between the Department of Employment and the Department of Social Security about who is to administer the new benefit; predictably they are both to have a hand.

A more substantial discussion has been going on about the definition of "availability for work". The guiding principle is likely to be a review of the recipient's attempts to find work – a development of Lord Young's Restart scheme. A less 'Gradgrind' aspect is to carry further the reintegration of the employment services and benefit offices. It is suggested that the same official who places somebody in a job should also explain to him how to apply for the top-up benefit for low earners known in the UK as Family Credit.

Another constructive idea is Prof Dennis Snower's, for the transferability of benefit for a limited period to employers willing to make a net addition to their labour force. A couple of pilot projects have been launched, but the DoE is regarded in the rest of Whitehall as dragging its feet in this regard. All such schemes must have some effect in reducing wages – the whole idea is to encourage employers to price more people into work without the workers concerned being forced into poverty.

There is no escaping the changes in the labour market, which confront some workers with the choice of no pay or low pay. But if they are to choose the latter without being forced onto unacceptably low standards of living, the solution would have to be a significant extension of the UK Family Credit system. This has been advocated by Lord Lawson, the former chancellor, who is no dewy-eyed sentimentalist.

At present Family Credit does not apply to single people or families without children. An extension to these groups is now estimated to cost up to £1bn a year. Although this is real money, it would be a low price to pay for combining the advantages of a US-style labour market with a European approach to poverty. Of course, reform should go further and ease some of the other conditions for drawing this benefit. But it is quite remarkable that no social security secretary within the past few years has as much as asked the Treasury for this particular extension.

# LETTERS TO THE EDITOR

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Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

## Cost arguments no way to nuclear future

*From Mr Peter Beck.*

Sir, Michael Smith's article, "Future of Sizewell C rests on 3.7p claim" (June 21), leaves me with the fear that the UK nuclear review will degenerate into a battle of numbers. Results of cost calculations for large projects depend on a host of assumptions, with many having a big effect on the outcome. By the choice of a judicious mixture of assumptions, all within the plausible range, one can get any result one wishes. We are left with all parties claiming that their numbers are correct and the others' wrong. Rather than such a battle, which usually generates much heat but little light, there are many fundamental issues surrounding nuclear energy which need debate. Just to mention two:

Whether justified or not, there is a considerable public opposition to nuclear energy. In other countries (Germany, US, Sweden) this has led to political parties taking different views, resulting in near-paralysis. Can one have a successful nuclear industry in a democracy unless there is a degree of consensus, such as exists in France and Japan, and is this achievable in the UK?

A highly competitive market structure of many players, which appears to be the aim of present government thinking, tends to lead away from long-term strategic decisions to greater emphasis on short-term profit maximisation. It is not clear how expansion of nuclear energy with its large unit investment, long delay between decision and start-up and its many political risks, can fit into such a model unless government decides to affect commercial decisions by reducing commercial risks. And that raises the issue of government role. Can investment in electricity be left to the play of short-term market forces or is there need for a strategic steer? If the latter, who, except government, can/should provide it?

There are strong differences of views on such points. Their debate will be more illuminating about the future role of nuclear power in the UK and how to achieve it than arcane arguments about relative cost advantages of hypothetical power plants during the first 30 years of the next century.

Peter Beck,
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## Time to act

*From Mr Derek H Broome.*

Sir, Thank heaven for Alastair Ross Goobey and his colleagues at PosTel ("PosTel vote threatens top company directors", June 27). It is high time that all institutions tackled the scandal of executive pay and perks. Reasoned arguments are ignored; only massive votes at AGMs will serve.

*If more institutions follow* the PosTel lead they will deserve the full support of private shareholders who are otherwise easily ignored. I suggest that any such should solicit proxies to drive home the point that executives can no longer decide their own terms and conditions without accountability to the owners at large.

Derek H Broome,
*52 Wellington Road,*
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## Not well known as a bank

*From Dr Christian Deubner.*

Sir, I thought you might be interested in an experience illustrating the fame of the European Bank for Reconstruction and Development. During a brief stay in London, I tried to look up a friend at the EBRD. Having lost his card, with the bank's address and *telephone number*, I took the tube to Moorgate and asked an underground employee for EBRD's whereabouts. Understandably, perhaps, he could not help me, but sensibly sent me to ask at the closest branch of National Westminster Bank.

They would surely know. Alas, the lady at the information desk looked mystified: "European Bank – for what? Well, let's look at our handbook." She reached for a professional register of London banks. Her assurance swiftly waned as she looked at me doubtfully. "Your European bank is not here."

Becoming impatient, I begged her to look in a *normal* London telephone directory. She disappeared, returning after a lengthy delay with the yellow pages. I already guessed *her response: there was no* European bank under "banks and financial institutions".

At this point, I tried the normal telephone directory information service. One short call and I had my number. So it is not that the EBRD is completely unknown in London: it is just no bank. . . !

Christian Deubner.
*Stiftung Wissenschaft und Politik,*
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## In need of perspective

*From Dr Malcolm Povey.*

Sir, Dr Denis Alexander (Letters, June 25/26) lacks historical perspective. The church's persecution and censorship of Copernicus, Galileo, Servetus and Descartes, hardly adds up to a "powerful impetus . . . to the emergence of modern science". Just to add balance to a one sided account, Calvin burnt Servetus when he was on the point of discovering the circulation of blood and kept him roasting alive for two hours. Bruno was burnt at the stake by the Inquisition. The Inquisition sentenced Galileo to house arrest for life and commanded him publicly to renounce Copernicanism.

To the retort that these were mainly 16th century events the 17th century is better described as the time that science liberated itself from theology. The church fought a rear-guard action right into the 19th century. Darwin delayed publication of the *Origin of Species* for 20 years, castigating himself as "The Devil's Chaplain". The humiliation of Bishop Wilberforce and the triumph of Huxley's Royal Society marked the ascendancy of a scientific world view in the eyes of British society. Over the past half a millennium, religion has retreated from the centre of an explanation of all that exists to the periphery – it is to science that one looks first.

Malcolm Povey,
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## 'Lower' gas prices may not seem that way

*From Mr Ian Powe.*

Sir, In their vision of lower prices for all gas consumers (Letters, June 24), Mr Ted Trafford and his six colleagues attribute a contrary view, that there will be "winners and losers" to the opponents of competition. It is actually a view held by supporters of competition, including the Gas Consumers Council and the Monopolies and Mergers Commission. The latter's 1993 gas report said "some groups may be worse off than at present", a theme acknowledged by Ofgas, the industry regulator, and the Department of Trade and Industry in their joint consultation document's emphasis on the need to avoid "unacceptably abrupt price movements for particular groups of consumers".

A common objective for the GCC, the DTI and Ofgas, in their support of competition, must be to minimise or, better still, avoid price increases during transition from monopoly to competition. British Gas has only until April 1996 to follow government policy by re-balancing its monopoly tariffs to the cost-reflective basis which will allow competition to thrive. The question is whether today's cross-subsidies, which enable British Gas to supply millions of customers at below cost, are of such a size that their removal will cause significant price rises for those who use little gas or live far away from North Sea terminals.

Mr Trafford's prophecy stands a good chance of fulfilment, but if the promised "lower" prices are initially higher for many people than they pay today, those consumers may not see the point of the whole exercise.

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Thursday June 30 1994

# A watershed for Hong Kong

With yesterday's vote to approve Mr Chris Patten's political reforms, Hong Kong's Legislative Council has begun the final chapter of Britain's tenure. Elections this year and in 1995 will have the degree of freedom and fairness sought by the governor. But China promises to reverse the reforms. So we will not know until after it resumes sovereignty on July 1 1997, whether Mr Patten's contribution to Hong Kong's political structure will be lasting.

Nevertheless, Mr Patten's role has been positive in several respects. The very fact that an impassioned and lengthy debate on democratic reform took place at all in LegCo reflects greater political maturity in Hong Kong for which the governor can take credit.

He has forced open discussion of issues which many – whether in Hong Kong, China or Britain – did not want to face. China has had to consider, and to make clearer, what it means by "one country, two systems". Politicians in Hong Kong have had to stand and be counted on an issue central to its future. As a result, the transition to Chinese rule is likely to be less of a voyage into the unknown.

Although the vote did not go as China wanted, the way should now be clear for important practical aspects of the handover to be dealt with. There have been welcome indications from Beijing that it is willing to set disagreements on politics to one side and make progress on other issues. It is to be hoped that agreements will soon be reached on defence lands and on financing for the airport, and that progress can be made on topics such as air services and the many necessary legal changes.

## Democratic franchise

Also on the positive side, the reforms themselves broaden the democratic franchise of indirectly-elected seats, and make voting arrangements fairer, though leaving Hong Kong a long way from full democracy. This is a modest advance, which should help to strengthen the underpinnings of Hong Kong's economic success. However, it will have been of little value, and possibly counter-productive, if it lasts for only two years – the LegCo elected in 1995 is supposed to last until 1999.

China will have noticed that most LegCo members who gained their seats by contested election voted for Mr Patten's reforms, and most who were appointed to their seats voted against them. But it will also see that the vote nearly went its way in spite of the governor's lobbying efforts.

## New elections

Beijing's instinct will naturally be to carry out its promise in 1997 and arrange new elections to secure a more compliant legislative body. But it can await the results of the 1995 elections, and the subsequent behaviour of LegCo, before deciding whether to do so. Even if LegCo, and in particular some of its members, are objectionable to China, there would seem little need to disband it if its make-up were broadly acceptable. It should be remembered that China remains committed to the Basic Law, which sets out steps towards a fully directly-elected LegCo.

Thus Mr Patten's reforms may not be reversed. Even so, the overall result of his exercise is to leave Hong Kong in an unfortunate limbo.

It may be that this uncertainty was unavoidable and that it will make little difference to people in Hong Kong, especially in business, who have long adapted themselves to the prospect of Chinese sovereignty. But that the uncertainty exists results from Mr Patten's failure to achieve his original goals: to improve relations with China and to reach an agreement on the electoral arrangements. If his up-front approach to China had really paid off, everybody would be able to view Hong Kong's future with optimism.

Yet these remaining reservations do not prove correct the British ex-diplomats who would prefer Britain to have settled, on a quiet afternoon in Beijing, for the best electoral arrangements it could get. The last such effort to accommodate Beijing before Mr Patten's appointment, an agreement on the airport secured through a visit to Beijing by Mr John Major, hardly proved definitive: China then delayed approval for the project's financing terms in an effort to derail the governor.

Mr Patten's narrow victory at least clarifies the range of options, even if it is not known which of them Beijing will take.

# Healthy effect of league tables

Two striking results emerge from the publication yesterday of hospital performance league tables for England, Wales and Northern Ireland. The first is the marked improvement over the last year in average performance against many of the 23 indicators used. The second is the enormous variation that remains between the performance of individual hospitals. The discipline of league tables must have played a significant role in the first achievement and should spur progress on the second by encouraging the worst performers to raise their standards to the level of the best.

It is the variations between different hospitals that should give the most cause for concern. There are often good reasons why some hospitals do worse than others in, for example, reducing waiting times for operations. The distribution of resources is never perfect, and some hospitals have inherited years of neglect that will take time to remedy. But it is hard to see any reason why some hospitals should be able to treat virtually all patients within a year – and most within three months – while others find it hard to treat more than half their patients in a year. Raising all hospitals to the average of the top quartile would mean a significant improvement in the standard of the health service in many parts of the country.

## Day surgery

Similar variations can be seen in the use of day surgery. Day surgery is not the right approach in all cases, since some patients will need to stay in hospital to recuperate from even the most sophisticated of modern surgical procedures. But it is hard to fathom why one hospital should be able to extract all cataracts without an overnight stay while another requires all such patients to be hospitalised. Prima facie, this suggests an unacceptable waste of scarce resources in the form of hospital beds.

Even the much criticised punctuality targets are revealing in their variations. Hospitals that see barely half their outpatients within 30 minutes of the appointed time are still organising themselves for the benefit of their staff rather than their customers. The best performers are able to see all or nearly all their outpatients within the 30-minute target time. Those that cannot achieve this need to put a higher premium on meeting their patients' needs.

## Undesirable outcomes

There is, however, a danger that needs to be guarded against in focusing on a narrow range of performance indicators. Almost any target can be met if it is pursued single-mindedly, though the result may be to produce undesirable outcomes. At the most absurd level, a hospital could score well in the league tables by discharging patients earlier than is good for their health. To that extent, those who oppose the publication of league tables have a point when they say that there are no targets on clinical performance.

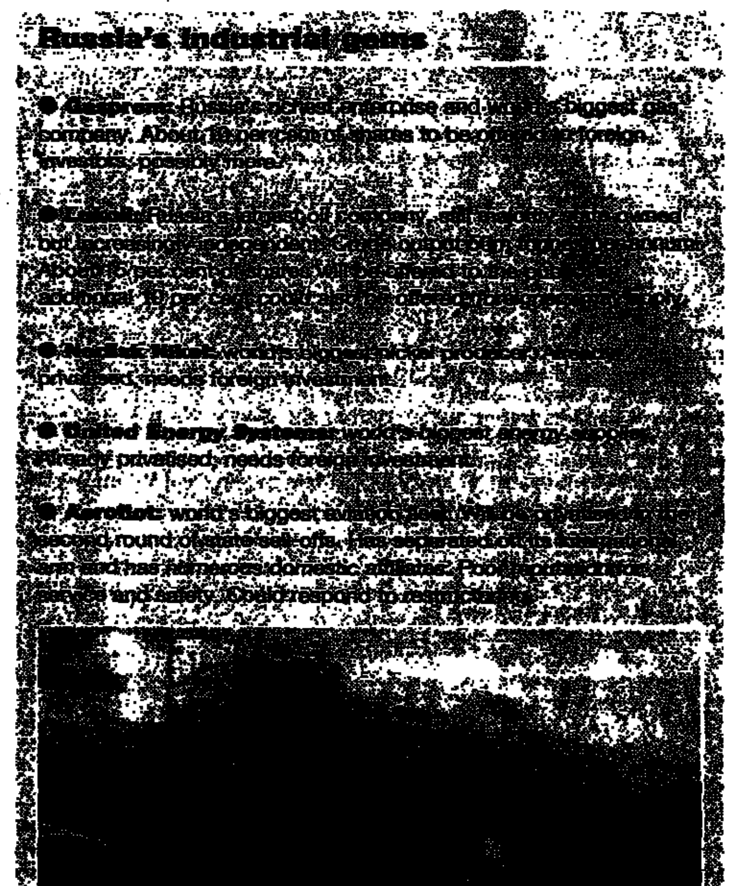
That is not an argument against league tables, however, but one for more appropriate performance indicators. Information on clinical matters such as death rates while under the scalpel and reinfection rates among discharged patients is available. In the US, such data are routinely published in comparable form and highlight unacceptable variations. A priority for the UK health service is to complement the existing service targets with equally robust clinical targets to illuminate quality of treatment.

However, the best should not be allowed to become the enemy of the good. Positive results from publishing comparative information can be seen already in the improvement in hospital performance since last year. Similar improvements have also been recorded in school performance, where league tables are now into their third year.

In that context, the Labour party needs to be more explicit about its plans for using such information to improve public services. Party spokesmen say that they are in favour of providing much more data on performance, but are cagey about whether they would compile league tables. This sounds like a recipe for a deluge of data that will swamp the customer and offer no basis for comparison. The greatest improvement in performance will come by publishing a limited range of indicators in tables that allow easy comparisons and then making managers accountable for the results.

Russian industry must restructure if the second phase of privatisation is to attract foreign investors, says John Lloyd

# Aux armes capitalists



Russian privatisation is at the end of its beginning: its first phase will be deemed complete today, its second starts tomorrow when a new tranche of enterprises is offered for sale to the public and, equally important, to foreign investors.

The first stage of the privatisation process has, in the 18 months since it began, put 70-80 per cent of small businesses and shops into private hands; privatised 15,000 medium and large-scale enterprises, largely by giving vouchers to the entire population which could be exchanged for shares; made 50m Russians shareholders; transferred nearly two-thirds of the labour force out of the state sector; created more than 600 mutual, or voucher investment funds with 40m shareholders.

"We have," says Anatoly Chubais, the deputy prime minister in charge of privatisation, "broken the back of the old system. We have created a broad base of shareholders who have an economic interest in the success of reform."

But the speed, and the explicitly political endeavour to create a bourgeois class much as the Bolsheviks strove to create a working class as their base, has left many problems unanswered – as critics such as Stanislav Shatalin, the veteran radical economist, and even participants in the reform process, agree.

"We can already say that the aims of the privatisation programme have failed," says Shatalin, "mainly because a large part of the companies have not the financial and material resources to carry through any kind of a production programme."

Maxim Boycko, head of the Russian Privatisation Centre, wrote in a harshly realistic assessment made with Andrei Shleifer, the Harvard economist who has assisted the privatisation process, that "most enterprises continue to be run unchallenged by old management teams, which often lack the human capital and interest to initiate significant restructuring … enterprises that do want to restructure often lack the capital to move aggressively … private markets have not succeeded in delivering capital to privatised firms."

> **The first phase of the privatisation programme moved so fast because it cut with the grain of just-post-Soviet society**

The programme moved so fast because it cut with the grain of just-post-Soviet society, where the workers and the managers possessed a huge passive power to block initiatives from the top. They did this throughout Mikhail Gorbachev's flailing efforts to improve the economy, and they mean to continue to fight any measures which threaten their jobs. Thus privatisation was skewed towards the insiders – the workers and the managers – giving them, in the option chosen by some 80 per cent of the enterprises, the right to own 51 per cent of the shares for nothing or for nominal sums.

According to Professor Yevgeny Yasin, head of a council of economic experts which advises President Boris Yeltsin, the insiders own on average some 70 per cent of the privatised enterprises, "and want to keep it that way for what they see as their own security".

For these reasons, the next stage is, as Chubais puts it, "the stage of strategic investment". It is, or should be, the time when both Russian and foreign investors come forward with cash, not vouchers, and come into their rights of ownership. Such rights include changing management, cutting jobs, shaping up the companies for domestic and foreign competititon. Chubais has fought legions of enemies, especially in the old Russian Supreme Soviet, who attempted to keep some kind of state control of industry. He has beaten most of them back, but to keep his shaky initiative he needs Russia's new capitalists to act as if they know they are capitalists.

The plans which he has presented, approved by the government this week but which have not yet received presidential approval, are for a programme which reduces insiders' privileges. Investors will be able to buy, at most, 25 per cent of the company at favourable – but much less favourable than in the first privatisation wave – rates. The rest of the shares will be sold for cash. Regional authorities will be given more powers over the process, which is a dangerous matter, as Chubais and his colleagues realise, since many are commanded by anti-reformists. But it is politically necessary.

Chubais' obsession in this second round is to empower the shareholders with vague rights of which they are mainly unaware. He points to some successes: his figures show that in 10 per cent of privatised companies, managements have been changed by shareholders' meetings. But he acknowledges that, for example, the present bureaucratic approach to bankruptcies means that the state and not the nominal owners of the enterprises has the final say on closing a company down.

Further, Chubais wants to make sure that enterprises can buy outright the land on which they are situated; that agricultural land can be sold easily (a process which he believes will be lengthy); that a security market should be encouraged to emerge; and that most attention be focused on separating out the enterprises' production functions from their social roles as providers of everything from cheap food, flats and kindergartens. The latter would mean a vast shift of responsibility onto the shoulders of regional and local administrations.

A significant part of Chubais' strategy – though it is touchy, even inflammatory, in Russia's nationalist-tending political arenas – is to attract foreign businesses. These have not been wholly absent from the first phase of privatisation. There have been a number of quiet purchases of substantial blocks of shares, usually in the secondary market from workers who wished to sell.

David Pitt-Watson of the Braxton Consulting Group, an international strategic consultancy, says: "These will be like a massive win on the roulette wheel in many cases, because they were so cheap: but it will probably take around 10 years to collect."

Now, however, both Russian and foreign financiers are being wooed in earnest – at least by some members of a still-divided Russian administration. The government's view is, as President Yeltsin said on Tuesday, that Russia is now "more politically stable than it has been for years".

Top business people are divided. Says Pyotr Aven, a former trade minister under Yegor Gaidar, head of the political party Russia's Choice and former acting prime minister, and now chairman of Alpha Bank, part of the finance group Alpha Capital, says that "we are now ready to invest". He cites cement plants as one area where his group's capital is already placed, ready to reap the rewards of the already surging private housing market.

But Vladimir Goussinsky, a prominent Moscow businessman, is more cautious, and thus more likely to continue to make much of his investment abroad.

Mentioning the project to launch the new-generation Tupolov 204 airliner with advanced avionics and Rolls-Royce engines, he says that government persuasion of him and his fellow financiers to support the project has not worked. He says this is because he does not believe that US and European aircraft manufacturers will allow it into their viciously-fought markets, nor that the Rusian government has the clout to promote it abroad. Yet aircraft – or at least airframe – manufacture is one of the few areas where Russian technology is competitive. If no investment here, then where?

The answer is probably in more humble areas, such as cement plants. Foreign companies have bought dominating positions in breweries, printing ink companies, perfume factories, food-processing plants and some engineering concerns. Though they have invested, in the past six years, less than $3bn, they are expected (at least by Mr Victor Chernomyrdin, the Russian prime minister) to jack that up to $10bn a year before the end of the decade.

Some foreigners are enthusiastic: Percy Barnevik, head of ABB Brown Boveri, the Swedish-Swiss power plant and engineering company has 16 joint ventures and 3,000 workers in Russia. Barnevik preaches an interactive learning process between foreigners and Russians, critically learning to trust each others' long-term commitments. "The key turning point in our Petersburg plant Nevski Zavod," says Barnevik, "was when we said we would teach 100 managers to speak English. Then they said, 'these foreigners are not just here for the quick buck'."

Others are sceptical, like the increasingly bad-tempered oil companies, battered by taxation, bad or non-existent legislation, the hostility of the Russian oil barons and, now, organised crime rackets. The latter are losing their inhibitions about approaching foreign companies for protection money and prey upon the the relatively highly paid, vulnerable Russian employees.

If this is the end of the beginning, the beginning of the end is very far away. Restructuring, which means shedding management and workers who have tried to use the first phase as a shield against attack, will be harder than what has gone before.

"We are not accustomed to seeing ourselves in the world," says Mr Sergei Dubynin, the acting finance minister, "but now we have to compete with other former Soviet states, and with more successful countries like Poland, Hungary and the Czech Republic. Investment has a wide choice."

Choosing Russia – on the part of Russians as well as foreigners – will be the critical decision of the rest of this decade.

# Blue chip off the old block

Angstrem is among the most successful companies in Russia. It epitomises, in almost textbook form, what privatisation is supposed to do – although it owes its progress to more than privatisation alone, writes John Lloyd.

Founded in the 1960s, Angstrem was a leader in the Soviet Union's belated efforts to catch up with the US in micro-technology for space and defence programmes. It was the leading centre in the "silicon valley" town of Zelenograd, 25 miles from Moscow, with more than 6,000 scientists and researchers working in the fabrication plant and an associated institute.

Two years ago, it became clear to Valery Dshkhunyan, the director, that its days as a protected state enterprise were numbered. Before privatisation got under way, he began seeking new markets – in an exercise of initiative rare for a Soviet-era director.

Moreover, he was prepared to shift production from the most sophisticated technologies used in space and defence programmes to those better suited to the consumer market. The stereotypical military plant director, on the other hand, is a man scornful of making useful tools when he could be making useless advanced weapons. Dshkhunyan acknowledges that "certainly, we have had to move down to a second level of quality"; but he adds that, "once we secure niche markets there and get new technology, we can move back up".

He has also reduced the number of staff by about one-third to a little over 4,000. In part, this reflects a fall in output. But it has also resulted because "some people wanted to use their skills to found small businesses of their own, and others could not adapt to the new circumstances." Here again, Dshkhunyan's outlook is atypical: most directors from the old Soviet era have retained staff, even if many are doing little or no work.

His plant is one of the last to go through the first stage of the privatisation process; the voucher auctions end today. Though his fellow managers and the workforce will end up owning about 50 per cent of the company, he worries that an outside investor will snap up a big stake and attempt to gain control of the company. "Many who are now investing want very quick returns, and that would be bad for this kind of company," he says.

It is a very tempting morsel. Its nominal value at privatisation is no more than $8m – even though it now exports half its production to hard currency markets, mainly in South East Asia, and is completing a $70m investment in a new facility with the latest available technology.

It is a dramatic example of the undervaluation of Russian assets which the privatisation process has forced on many companies – although in the case of many other companies, almost any valuation is too high.

Mr Dshkhunyan needs, above all, a foreign partner – and, with the aid of Credit Suisse First Boston, he is readying himself for one. He needs a joint venture in high-quality semiconductors and if he is to be able to put up the funds to complete the new plant. Moreover, he must have one if he is to open up new markets and extend the already impressive expertise he himself has built up in marketing. And he needs constant access to world-class technology so that the company remains a top Russian producer of microelectronic products and gadgetry.

He seems a little sad at the passing of the old era but he does not mourn it. "We realise that a foreign partner would have little interest in an association with a state company, and so we must privatise," he says. Despite the sacrifices and a certain feeling of loss, Mr Dshkhunyan is taking the long view, and getting on with it.

# OBSERVER

## Glad-handing philanthropist

■ Grzegorz Kolodko, Poland's energetic new finance minister is slap in the middle of a major reshuffle designed to bring new blood into the economic ministries.

Still, he found time to squeeze in a snack this week with George Soros, the peripatetic philanthropist and financier. Oddly enough, also present was Jerzy Osiatynski, himself a former finance minister – from the Freedom Union party, which led the last government – even though his party, now in opposition, poured scorn on Kolodko's strategy in a parliamentary debate.

Osiatynski may simply have been putting in a good word for Wojciech Misiag, the hirsute deputy finance minister, whom Kolodko has just sacked.

Misiag has a reputation for being the only person in Poland able to put together a budget, handle subsequent probing from the International Monetary Fund, and keep the state purse strings firmly closed against hectoring politicians desperately seeking funds for their constituencies.

Misiag served five finance ministers including Osiatynski; all of them felt him indispensable – except Kolodko. Maybe Kolodko was preaching the virtues of Misiag to Soros, who – apart from his philanthropy in central and eastern Europe – has seen his Quantum fund recently invest $133m in the area. Or maybe Kolodko himself was after a job …

## A to Zoo

■ Standard Chartered had its own codename for the inquiry into its misdemeanours in the Hong Kong securities markets which led to a ban on its taking part in flotations until next April. The name was Hippo, after the Initial Public Offerings (IPOs) which it was helping to ramp. Given its tendency to get into this sort of scrape, which exotic species will we hear of next?

## Get real

■ Brazil's army has taken to the streets again, but the troops and armoured cars on display are this time guarding the country's new currency rather than planning another coup.

The currency, the Real, comes into force tomorrow and the Central Bank has called in the army to ride shotgun as it distributes the newly minted notes and coins to state and private banks. The exercise has proved to be one of the country's biggest security exercises since Brazil's criminals specialise in mass hold-ups of armoured cars.

Although the changeover has gone reasonably smoothly, the army may still be asked to restore public order next Monday when many Brazilians will have their first chance to change their old notes for new. The problem is that the banks, the stock exchange and indeed the whole country will close in the afternoon because that's when Brazil is playing in the next round of the World Cup.


'What would happen if the man who tells Railtrack not to negotiate couldn't get to work?'

## Sense of schnell

■ The London Stock Exchange's regulatory news service is always being blamed for being late with the news. But for once it excelled itself yesterday. It announced the name of Edzard Reuter's successor at Daimler-Benz a few minutes before it should have done. Despite everyone knowing that Jurgen Schrempp was going to get the job, the stock exchange was forced to cancel its earlier announcement because the decision on the successor "had not yet been agreed". Twenty-one minutes later, Schrempp got the job. Those Germans move fast when they have to.

## One man, one vote

■ Nice to see Geoffrey Maddrell, chairman of ProShare, add another chairmanship to his growing portfolio. Not only is Macdonald Martin Distilleries the official supplier of malt whisky to the Observer column, but it is one of the dwindling band of companies where some shareholders have limited voting rights.

As Maddrell is chairman of a pressure group which champions the cause of little shareholders, Observer will be most upset if he doesn't get rid of this iniquity in time for next year's agm. If he doesn't, Observer may have to take its custom elsewhere.

## Hemmed in

■ The onward march of female feet along the House of Commons corridors of power continues. Following in the steps of Betty Boothroyd, the first woman Speaker, the Rev Phyllis Bates yesterday became the first woman to lead the traditional prayers held at the beginning of every sitting.

The irony was heightened by the presence on the front bench of John Gummer, the environment secretary and former member of the Church of England general synod, who recently converted to Roman Catholicism because of his opposition to women priests.

## Snubbed again

■ Fresh evidence of the declining influence of Britain's trade unions: the Transport and General Workers have not been invited to name a representative to the government's consultative panel on badgers and bovine tuberculosis this year. Agriculture minister Gillian Shephard says that only those organisations with a clear and direct concern in the problem need to be represented; she's obviously forgotten that farm workers are members of the TGWU.

## Lost youth

■ Signs of the times. The nine-year-old daughter of a colleague was puzzled on being told that her mother would be late because of the rail strike. "What's a strike, mummy?" she said.

Who says Mrs Thatcher didn't make a difference?

FINANCIAL TIMES
Thursday June 30 1994



# Bonn outlines modest EU presidency agenda

By Philip Stephens and Quentin Peel in London and Michael Lindemann in Bonn

Mr Klaus Kinkel, the German foreign minister, yesterday set out a modest programme for the country's six-month presidency of the European Union, which begins tomorrow, insisting that it *went no further than what was* agreed by all other member states.

"We will do everything in our power to promote the cause of Europe in this limited period," he told the Bundestag, the German parliament's lower house in Bonn. But he added: "The German image of Europe is identical with that of our partners."

Mr Kinkel's conciliatory comments came as Mr Douglas Hurd, UK foreign secretary, sought to *draw a line under the row* between London and its partners over the Commission presidency *by suggesting that* "five or six" new names were now being discussed as an alternative to Mr Jean-Luc Dehaene, the Belgian prime minister. All were "broadly acceptable", he said.

Mr Kenneth Clarke, UK chancellor of the exchequer, took the same tack by stressing Britain's decision to veto the appointment of Mr Dehaene did not foreshadow a decisive shift in Britain's commitment to the EU.

Mr Clarke, in a speech that *angered Tory Euro-sceptics*, emphasised his personal support for the eventual goal of economic and monetary union and said the government was prepared to see a successor to Mr Jacques Delors committed to deepening as well as widening the Union.

The speech in Bonn, to the Konrad Adenauer foundation, also failed to persuade many in his Christian Democrat audience *that Britain's pledge to remain* "at the heart of Europe" would be matched in practice.

Diplomats in Brussels are mentioning three names for the presidency: Mr Felipe González, Spanish prime minister, Mr Anibal Cavaco Silva, his Portuguese counterpart, and Mr Giulano Amato, former prime minister of Italy.

Meanwhile, in a further effort to ensure that Anglo-German relations do not suffer protracted *damage as a result of the clash at* Corfu, Mr Kinkel denied that there was any link between Germany's moves this week to ban British beef imports and Britain's veto of Mr Dehaene.

Search for Delors successor moves south, Page 2
Clarke enrages Euro-sceptics, Page 10

# US GDP growth in first quarter revised up to 3.4%

By Michael Prowse in Washington

The US economy grew more vigorously than previously thought in the first quarter, at an annualised rate of 3.4 per cent in real terms, the Commerce Department reported yesterday.

Personal consumption grew at an annualised rate of 5.2 per cent *between the fourth quarter and* the first quarter, an acceleration from the growth recorded in the second half of last year.

The growth in gross domestic product in the first quarter was initially estimated at an annualised rate of 2.6 per cent and subsequently at 3.0 per cent, before yesterday's revision to 3.4 per cent. Similar upward revisions occurred in the fourth quarter when growth was finally put at 7 per cent, up from an initial 5.9 per cent.

Employment growth figures have also been revised up in recent *weeks*.

The latest GDP revision is significant because it confirms the economy was growing well above its long-run potential rate of expansion in the first quarter, when output was artificially depressed by a severe winter and the Californian earthquake. *Despite the soft tone of recent* figures for retail spending and industrial production, many forecasters are projecting growth at or above the first-quarter rate in the present quarter, partly reflecting a rebound of construction and other sectors affected by adverse weather.

If employment data next week are strong, this could put domestic pressure on the Federal Reserve to raise interest rates.

Mr David Hale, chief economist at Kemper Financial Services in Chicago, said the annualised growth rate was now probably *about 4 per cent. Growth was* likely to remain above trend for the next two to four quarters.

He predicted that the Fed would raise short-term rates next week by at least a quarter point, possibly by half a point to 4.75 per cent.

The main upward revisions in *the first quarter were for* personal consumption and business investment. Federal spending and exports were revised down slightly. Broad estimates of inflation were little changed: the "fixed-weight" GDP deflator rose at an annual rate of 3.2 per cent.

In the first quarter, GDP, personal consumption and non-residential fixed investment stood 3.8 per cent, 4.4 per cent and 13.2 per cent above the same period last year.

# Hong Kong legislators back plan to broaden franchise

By Simon Holberton in Hong Kong

Governor Chris Patten's controversial proposals for political reform in Hong Kong were approved by the colony's Legislative Council (LegCo) last night, after a long debate characterised *by intense lobbying by opponents* and supporters alike.

LegCo approved Mr Patten's legislation, which seeks to broaden the franchise in elections due this year and next, by a margin of 32 to 24 in a vote which brings to an end almost two years of debate in Hong Kong about the proposals.

China, which objected as much to the manner in which Mr Patten announced his plans in October 1992 as to their content, *made it clear ahead of the vote* that LegCo's deliberations would not affect Beijing's determination to hold fresh elections after *China's resumption of sovereignty* in 1997. Last year, Britain and China failed to agree about how Hong Kong's remaining elections under British rule *should be conducted.*

However, the repetition of the threat did not prevent pro-Beijing legislators participating in the vote. Neither did it appear to prevent senior Chinese government officials from lobbying individual legislators to support amendments proposed by the *Liberal* party, a pro-business conservative group, which were designed to water down the bill.

In addition, there were indications yesterday that Beijing may move to resolve outstanding issues with Britain over Hong Kong's transfer. British officials expect that China may today settle seven-year negotiations over the transfer of military land.

Mr Patten's victory was signalled earlier in the night when *the Liberal amendments were* voted down by 29 votes to 28. Two members of the 60-strong legislature abstained, meaning that Mr John Swain, the speaker, was not required to use his casting vote.

The two members, Mr Martin Barrow, a director of Jardine *Pacific, and Mr Simon Ip, the* legal profession's representative, had both intended to vote for the Liberals but changed their minds at the last moment.

Mr Barrow, who was closely involved in devising the Liberal amendment, said he abstained so that "the scales could be tipped by people whose home *has* been and will be Hong Kong for generations to come". He saw the governor on Tuesday afternoon.

Earlier in the day Mr Allen Lee, Liberal leader, said that no one believed the governor's electoral arrangements would survive the transition to Chinese *rule*. "Only an idiot would believe that," he said.

Editorial Comment, Page 17

## THE LEX COLUMN

# Enterprise initiative

**FT-SE Index: 2946.3 (+37.3)**

Enterprise's bid for Lasmo would have looked half-hearted if the company had not been prepared to buy at least *some shares for cash in the final* stages. It has not delivered a knockout blow, though. The gulf between Lasmo's share price and the value of Enterprise's bid has narrowed but it is still wide. The fall in Enterprise's share price may well reflect fears that it could now end up having spent £159m on a minority stake in Lasmo which will bring few benefits. Indeed, PDFM, the lucky investor which sold half its large stake for cash, looks to have come away best of all.

Doubtless other investors, particularly *in the US, will complain that* they did not have a similar opportunity to put up their holdings for cash. Had Enterprise wanted to be strictly fair it could have spread its cash around and added a 16p cash payment to its paper bid. But that would hardly have been a winning stroke and the rules of the UK game allow fire power to be concentrated in this way. Normally that does at least allow the bidder to pick off the waverers.

Supporters of Enterprise argue that PDFM was a natural port of call since *it is the largest shareholder in Lasmo* and since market purchases have to be carried out quickly. But Enterprise's task would have been easier if PDFM had been willing to indicate support for the paper offer. The cash could then have been spent on other investors. There are still a lot to convince, and it remains an uphill task.

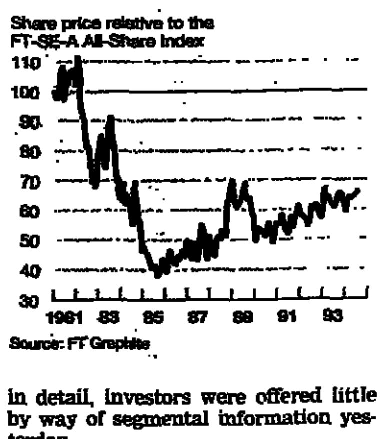
## Charter

It is always pleasing to see a company delivering on promises. By buying a market-leading position in welding equipment, Charter has deployed its cash pile in a manner wholly consistent with its stated strategy. A multiple of around 15 times this year's forecast earnings looks a reasonable price to pay for a manufacturing business close to its cyclical floor in profits. Since the acquisition of Esab is being funded with a mixture of surplus cash and a rights issue priced at a similar multiple, the benefit to earnings per share should be immediate.

Yet yesterday's 7 per cent rise in Charter's shares suggest that investors are taking a lot on trust. The group is doubling its sales at a stroke but has no track record of digesting such large prey. Contrasting management styles will have to be reconciled without creating damaging waves. And while Charter has examined Esab in detail, investors were offered little by way of segmental information yesterday.

**Charter**

Share price relative to the FT-SE-A All-Share Index




Source: FT Graphite

For Charter to justify its new premium rating, Esab's operating margins will have to be restored to double digits within a couple of years. With the economic cycle moving in its favour – and allowing for some rationalisation benefits – that is not an impossible task. But Charter must deliver handsomely on its promise to satisfy the City's high expectations.

## Daimler-Benz

By the yardsticks used to measure the performance of chairmen of *quoted companies, at least outside* Germany, Mr Edzard Reuter's tenure at Daimler-Benz has not been a success. Daimler-Benz's shares have dropped by nearly 40 per cent since their historic high point in late 1986 (when Mr Reuter was still finance director), while the DAX index of Germany's 30 leading shares has risen by 35 per cent. Diversification over that period has yet to produce shareholder value. Following a spate of acquisitions, turnover climbed from DM65.5bn in 1986 to DM97.7bn last year, while pre-tax profits plunged from nearly DM6bn to a loss of DM1.8bn.

This is the background against which *Mr Reuter* will step down from the management board next May. His successor is to be Mr Jürgen Schrempp, currently the chairman of *Daimler's* Deutsche Aerospace subsidiary. He is the continuity candidate at a time when a fresh approach might have been more welcome.

Although Mr Schrempp is an enthusiastic cost-cutter himself, he is closely identified with the strategy of creating an "integrated technology group". By end of the century, Dasa may well be making a profit to rival the contribution of Mercedes, but the diversification strategy is still a question of "jam tomorrow".

## UK property

The latest uptick in the gilts market, some bullish forecasts for commercial property values, and the purchase of a big City office block by a German investment fund have breathed some life into property shares. Leading property companies yesterday outstripped the FT-SE 100 index with British Land climbing 5 per cent. After a sluggish performance all year, it would be tempting to assume that property shares may run some more – especially now that most companies have returned to discounts to net asset values.

This year, rising bond yields have diminished property's appeal by narrowing the comparative yield. Higher long-term interest rates have also deterred investors from buying bricks and mortar direct. But at some point, such arguments will lose their force.

If rising gilts yields really do presage the return of inflation then rents should rise more quickly. That in turn promises income growth for property companies, which is the ultimate reason for buying property shares. The theory is fine; the practice may be *somewhat different. Many property* companies own buildings where tenants pay more than open-market rents. Such portfolios may still not produce income growth for several years.

## Currencies

The *striking aspect about yesterday's* dollar fall is that the effect did not spill over into bond and equity markets. This may be partly because the main movement was against the yen, and can be considered a specific response to Japan's political crisis.

But it also looks as though fears *that the US may raise interest rates* sharply to defend the dollar are abating, despite the upward revision to first-quarter growth. It would be unlikely, though, for the problem to go away as easily as that. The pressures which brought about last week's turbulence will have to be addressed eventually.

# Dollar hits new low

Continued from Page 1

against the dollar. The dollar closed in London at Y98.765 from Y100.210 on Tuesday. Against the D-Mark it finished at DM1.5825 from DM1.5849. In London, the September long gilt future, *helped by a successful floating* rate note auction, was nearly 0.75 of a point higher. The FT-SE 100 Index closed 37.3 points higher at 2946.3. In France, the CAC Index rose 10.57 points to 1936.33. In Germany, the DAX jumped 28.04 to 2046.30. Mr Michael Hughes, managing director of BZW Global *Economics and Strategy, said* "uncertainties about US policy are reducing. The problem looks nearer to being solved".

# Arafat to visit Gaza

Continued from Page 1

notice. Mr Rabin's spokesman said last night: "Israel has no objection in principle to an Arafat visit to Gaza ... but now we are concerned with the timing of the visit."

One problem, which could delay the visit until Sunday, is *that the Rafah crossing is usually* closed on Saturday, the Jewish sabbath, and opening it would need a special cabinet decision – a move which could provoke a political crisis between government and religious groups and parties.

Mr Arafat's decision also took *the PLO by surprise*. Several senior PLO officials from Gaza and the West Bank were out of the country and were reported to be scrambling to find flights *home in time for Mr Arafat's* arrival.

PLO officials said they believed the key to Mr Arafat's decision was a message on Tuesday night from Mr Ahmed Qurei, economic minister in the Palestinian self-rule authority, that agreement had been reached in Washington *on releasing* more *aid* to the Palestinians.

Mr Qurei had apparently managed to increase monthly disbursements from a special fund from \$10m to \$13m.

More than \$720m has been pledged to the Palestinians for the first year of self-rule.

In Israel news of Mr Arafat's impending arrival was greeted by criticism from the rightwing opposition.

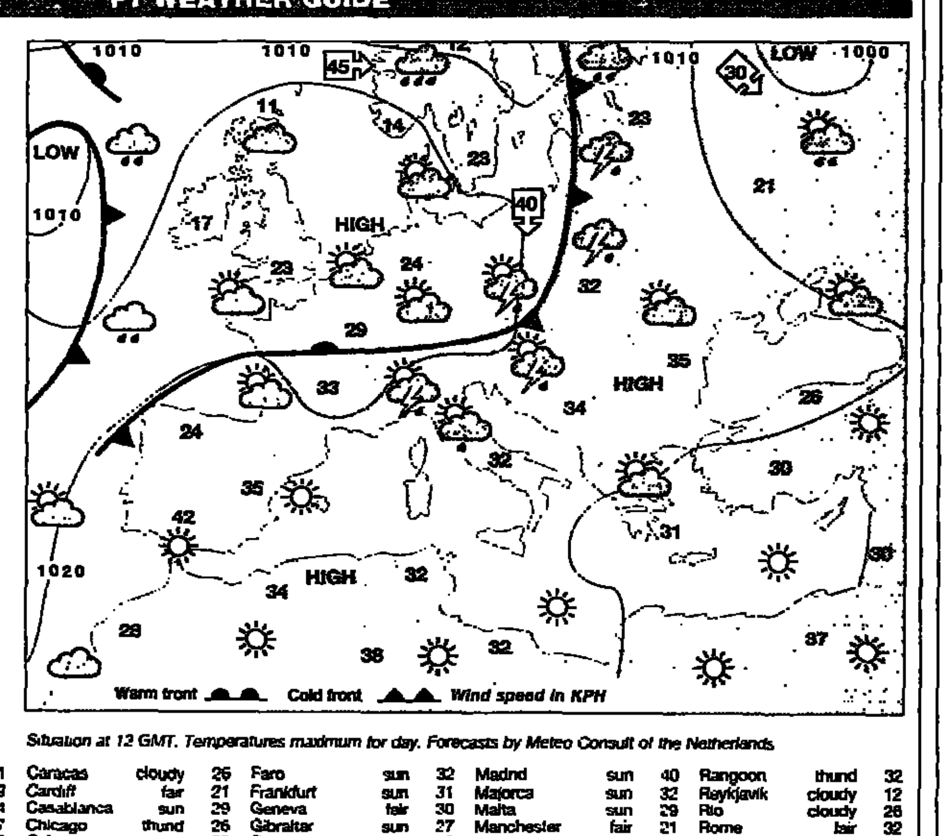
## FT WEATHER GUIDE

### Europe today

A frontal boundary over eastern Europe will bring thunderstorms to Finland, Poland and the Balkan states. Greece and the Balkans will be very hot with maximum temperatures of 35C. It will be less humid and much cooler in Germany, the Low Countries and northern France. High pressure over Holland will promote sunny and dry conditions in a large area of western Europe. The western British Isles and Scandinavia will have rain. Southern Europe will be hot and sunny. *Italy will have thunderstorms*.

### Five-day forecast

Western Europe will have another warm spell. France and Germany will *be almost tropical over the weekend* with temperatures up to 35C. On Sunday cooler air moving in from the Atlantic will cause more thunderstorms in the Low Countries, Germany and France. Scandinavia will become mostly sunny and dry in the south, while frontal systems in the north will bring rain. Southern Europe will remain warm with thunderstorms in Greece.




*Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands*

**TODAY'S TEMPERATURES**

| | | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Maximum | | Beijing | fair | 31 | Caracas | cloudy | 26 | Faro | sun | 32 | Madrid | sun | 40 | Rangoon | thund | 32 |
| | Celsius | | Belfast | cloudy | 19 | Cardiff | fair | 21 | Frankfurt | sun | 31 | Majorca | sun | 32 | Reykjavik | cloudy | 12 |
| Abu Dhabi | sun | 40 | Belgrade | fair | 34 | Casablanca | sun | 29 | Geneva | fair | 30 | Malta | sun | 29 | Rio | cloudy | 28 |
| Accra | sun | 30 | Berlin | sun | 27 | Chicago | thund | 26 | Gibraltar | sun | 27 | Manchester | fair | 21 | Rome | fair | 32 |
| Algiers | sun | 34 | Bermuda | shower | 30 | Cologne | sun | 29 | Glasgow | cloudy | 19 | Manila | thund | 31 | S. Frsco | fair | 24 |
| Amsterdam | fair | 24 | Bogota | cloudy | 18 | Dakar | sun | 28 | Hamburg | fair | 23 | Melbourne | fair | 13 | Seoul | rain | 32 |
| Athens | sun | 32 | Bombay | drzzl | 31 | Dallas | sun | 38 | Helsinki | shower | 23 | Mexico City | shower | 21 | Singapore | drzzl | 31 |
| Atlanta | fair | 34 | Brussels | sun | 27 | Delhi | fair | 35 | Hong Kong | fair | 32 | Miami | fair | 32 | Stockholm | fair | 24 |
| B. Aires | fair | 13 | Budapest | fair | 34 | Dubai | sun | 42 | Honolulu | fair | 31 | Milan | sun | 34 | Strasbourg | fair | 31 |
| B.ham | fair | 23 | C.hagen | fair | 21 | Dublin | fair | 19 | Istanbul | sun | 30 | Montreal | shower | 26 | Sydney | cloudy | 15 |
| Bangkok | thund | 33 | Cairo | sun | 37 | Dubrovnik | fair | 34 | Jakarta | cloudy | 31 | Moscow | fair | 21 | Tangier | sun | 33 |
| Barcelona | sun | 30 | Cape Town | fair | 10 | Edinburgh | cloudy | 19 | Jersey | sun | 24 | Munich | sun | 29 | Tel Aviv | sun | 33 |
| | | | | | | | | | Karachi | fair | 35 | Nairobi | fair | 26 | Tokyo | fair | 29 |
| | | | | | | | | | Kuwait | sun | 45 | Naples | sun | 32 | Toronto | shower | 25 |
| | | | | | | | | | L. Angeles | sun | 29 | Nassau | thund | 29 | Vancouver | fair | 20 |
| | | | | | | | | | Las Palmas | sun | 26 | New York | fair | 29 | Venice | fair | 32 |
| | | | | | | | | | Lima | cloudy | 20 | Nice | fair | 28 | Vienna | shower | 28 |
| | | | | | | | | | Lisbon | sun | 30 | Nicosia | sun | 32 | Warsaw | shower | 29 |
| | | | | | | | | | London | sun | 26 | Oslo | fair | 24 | Washington | fair | 32 |
| | | | | | | | | | Lux.bourg | fair | 29 | Paris | sun | 30 | Wellington | windy | 13 |
| | | | | | | | | | Lyon | fair | 32 | Perth | rain | 18 | Winnipeg | fair | 33 |
| | | | | | | | | | Madeira | sun | 24 | Prague | fair | 29 | Zurich | fair | 28 |

FINANCIAL TIMES

# COMPANIES & MARKETS



Thursday June 30 1994



## IN BRIEF

### A revolutionary comes to Daimler

When Mr Jurgen Schrempp walks through the front door of Daimler-Benz's Stuttgart headquarters in May to take over as chairman, he is likely to be as revolutionary in Germany's biggest industrial group as he has been at its aerospace subsidiary. Page 20

**Ford-Werke set to leave the red**
Ford-Werke, the German subsidiary of the US motor group, said it would move out of the red and return a profit of at least DM100m ($61.3m) this year but warned that the German car market was making a tentative recovery. Page 20

**Volvo pays the price**
Volvo's vehicle development programme was set back by more than six months when its plan to merge with France's Renault failed, according to Mr Bert-Olof Svanholm, chairman of the Swedish vehicle manufacturer. Page 20

**Montedison out of the woods**
Montedison, the Italian agro-industrial, chemicals and energy group, has begun to overcome the heavy legacy of debt and alleged mismanagement which brought it to its knees last year, according to its board. Page 20

**Trizec's assets threatened**
Trizec's senior creditors have threatened to seize the Canadian property developer's assets. Page 21

**Caterpillar moves forward**
Caterpillar, the US heavy equipment and machinery company, has been returning to strength on the back of the US economic recovery, with sales and the share price rising. Page 21

**Derivative spin-off from Lasmo bid**
If Enterprise Oil's £1.7bn ($2.58bn) hostile bid for Lasmo, its fellow UK oil explorer, proves successful, one spin-off will be the creation of the third largest issue in the developing UK warrants market. Page 22

**Cathay Pacific's troublesome baggage**
For an airline which is the envy of its peers as one of the few international carriers still making a profit, Cathay Pacific is carrying a lot of troublesome baggage. Page 22

**Fragile cover for HK listing**
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Acquisitions helped Asprey, the UK jewellery retailer which also owns Garrard and Mappin & Webb, raise pre-tax profits by almost 18 per cent. Page 28

**Warburg still the tops**
SG Warburg Securities is the top rated London research house for the fourth year running in the annual Extel survey of research analysts. However its winning margin was smaller than a year ago. Page 30

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**Chief price changes yesterday**

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **FRANKFURT (DM)** | | | | Pernod | 379.5 | + | 11.3 |
| **Rises** | | | | Simco | 510 | + | 13.2 |
| Beiersdorf | 933 | + | 17.5 | **Falls** | | | |
| Douglas Hld | 500 | + | 12 | AGF | 475.6 | – | 7.2 |
| Kaufhof | 508 | + | 14 | Crd Foncier | 959 | - | 18 |
| Leifheit | 680 | + | 20 | Eridania B | 733 | – | 32 |
| **Falls** | | | | **TOKYO (Yen)** | | | |
| AG Ind Verk | 545 | – | 7.5 | **Rises** | | | |
| Asko | 990 | – | 50 | Mitsuko | 1440 | + | 60 |
| **NEW YORK ($)** | | | | **Falls** | | | |
| **Rises** | | | | Ando Cons | 898 | – | 18 |
| Citicorp | 40½ | + | 1 | Banyu Pharm | 920 | – | 25 |
| First Inter | 77¾ | + | 1¼ | Keihin Elec | 632 | – | 28 |
| Kodak | 48⅞ | + | 1 | Marcian | 703 | – | 22 |
| Novell | 17¾ | + | 1⅛ | Mitsui Soko | 850 | – | 26 |
| Sears | 47⅞ | + | 1 | | | | |
| Wells Fargo | 155 | + | 1 | | | | |
| **PARIS (FFr)** | | | | | | | |
| **Rises** | | | | | | | |
| Immobanque | 569 | + | 16 | | | | |

New York prices at 12.30pm.

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **LONDON (Pence)** | | | | Midlands Elect | 589 | + | 14 |
| **Rises** | | | | Northern Elect | 670 | + | 23 |
| Arjo Wiggins | 255 | + | 10 | Redrow | 113 | + | 6 |
| BICC | 400 | + | 15 | **Falls** | | | |
| BOC | 701 | + | 18 | Bolton | 23 | – | 6 |
| British Land | 389 | + | 20 | Enterprise Oil | 382 | – | 26 |
| Charter | 714 | + | 51 | Finlay (James) | 75 | – | 5 |
| Cookson | 239 | + | 8 | Lloyd Thompson | 185 | – | 45 |
| Dalgety | 417 | + | 16 | Trade Indemnity | 51 | – | 6 |
| Eastern Elect | 614 | + | 27 | Willis Corroon | 144 | – | 5 |
| Grand Met | 409 | + | 15½ | | | | |
| Hamsons Cros | 164 | + | 9 | | | | |
| Land Sec | 622 | + | 14 | | | | |

# Hafslund set to dominate x-ray niche

By Karen Fossli in Oslo and John Ridding in Paris

Hafslund Nycomed, the Norwegian group best known for its radiology products, is paying $450m for the diagnostic imaging business of US-based Sterling Winthrop.

The seller is Sanofi, the French pharmaceuticals group, which last week announced it was buying the prescription drugs business of Sterling Winthrop, a subsidiary of Eastman Kodak of the US, for $1.68bn.

Hafslund's move, believed to be the largest acquisition of a foreign company by a Norwegian group, is a big step towards its ambition of becoming the world's leading producer of contrast media, which are used to improve X-ray images.

Hafslund estimates the contrast media market will be worth NKr20bn ($2.89bn) next year. The deal would give Hafslund a 45 per cent share of the US market, where its main competitors are Bristol-Myers Squibb and Schering of Germany.

Mr Svein Aaser, Hafslund president and chief executive, said: "Through this acquisition, Hafslund has achieved its strategic goal of establishing a presence in its own right in the US pharmaceutical market, which is the largest in the world, and will thus retain a larger share of the total added value on its products."

The sale also represents an important part of Sanofi's programme of disposals to help finance its $1.68bn acquisition. Announcing the acquisition of Sterling Winthrop last week, Mr Jean-François Dehecq, Sanofi chairman, indicated some of the businesses were not central to Sanofi's strategy and would be sold.

Following the deal, Sanofi said the effective price of its US acquisition had been reduced to $1.23bn, supporting its forecast that the purchase of Sterling Winthrop's prescription drugs businesses would raise earnings per share by up to 15 per cent next year.

In 1993 Sterling's contrast media business generated sales of $480m. Hafslund, which expects to realise annual savings of up to $80m, said the acquisition would increase its annual sales to about NKr10bn from NKr6.4bn in 1993.

The company intends to take up a $500m syndicated loan to finance the acquisition; its debt-equity ratio rises from 56 per cent at the end 1993 to 72 per cent.

# Blockbuster to take control of UK video group

By Martin Dickson in New York

Blockbuster Entertainment, the US video rental group which owns 19.9 per cent of Virgin Interactive Entertainment (VIE), a British video software developer, is to take control of the company by buying a further 55 per cent stake from Mr Richard Branson, owner of the Virgin group, and other shareholders.

Blockbuster said yesterday it intended to sell its entire VIE stake on to Spelling Entertainment, the Hollywood film production company in which it has a majority stake, in return for Spelling shares valued at around $165m. This will boost its stake in Spelling from around 70.5 per cent to 77 per cent.

Virgin will get around $125m in cash from the deal and retain a 10 per cent stake in VIE. Hasbro, the toy manufacturer, holds the remaining 15 per cent.

VIE, with sales this year of around $200m, develops, publishes and distributes video games for leading consumer hardware systems, including Nintendo, Sega and CD-ROM. Its titles include The Seventh Guest – a hit CD-ROM game last year – and it is also releasing games based on Walt Disney animated films.

The acquisition forms part of Blockbuster's efforts to diversify from video retailing into a broad-based entertainment conglomerate. It bought its initial 19.9 per cent stake in VIE in January, when the British group was contemplating a flotation in the US.

Mr Robert Devereux, who will continue to head VIE under its new ownership, said Virgin had decided to sell a majority stake, rather than float, partly because of poor stock market conditions but mainly because of its view of the future of the games industry.

Virgin believes that the next two or three years will sort out "the companies that dominate the business for the next 10 years". An alliance with Blockbuster, with its marketing and distribution strength, would help secure VIE's position as one of the key half dozen players.

Blockbuster has 4,250 retail locations around the world. Spelling produces television hit shows, such as the teenage soap opera Beverly Hills 90210, and also has an extensive film and television library which could be used in interactive games.

Blockbuster and the Virgin group already have a joint venture to build music megastores, which also sell games, in Europe, the US and Australia.

# Charter boosted by Swedish purchase

By Andrew Bolger in London and Hugh Carnegy in Stockholm

Shares in Charter jumped 51p to 714p after the UK diversified industrial group made a recommended offer worth £390m ($603m) for Esab, the Swedish welding products company.

The acquisition, which would more than double the size of the UK group, is the culmination of a restructuring by Charter, which last year unwound its links with Anglo American Corporation, the South African mining group.

Charter is offering £260m in cash for Esab and will assume £130m in debt. The offer is being funded from Charter's cash pile of £156m, plus the £93m proceeds of one-for-four rights issue at 560p per share.

The offer has been accepted by Incentive, the industrial and investment group controlled by Sweden's powerful Wallenberg family. Incentive owns 43 per cent of Esab's shares and 49 per cent of its voting rights.

Esab has annual sales of £600m and employs 7,000. Charter said it was the world market leader in welding products. Although recession has cut Esab's operating profits from £40m in 1989 to £7m last year, they are forecast to recover to £27m this year and £40m in 1995.

Mr Jeffrey Herbert, chief executive of Charter, said the acquisition would be earnings enhancing. This is partly because the investment offers a better return on the cash that Charter accumulated last year after it won its independence by selling its stake in Johnson Matthey and then buying out Minorco's holding.

Charter said the consumption of welding products closely follows the economic cycle, and is forecast to grow over the next few years. Esab has reduced its west European workforce by 35 per cent over the past three years, and embarked on a product rationalisation programme.

The UK group is likely to continue the restructuring, as well as looking at ways of using more of Esab's low-cost production capacity in eastern Europe.

Charter made the rights issue to bolster its balance sheet, given the assumption of Esab's debt and a £190m goodwill write-off. Post-acquisition, it will have gearing of about 49 per cent.

Analysis, Page 28; Lex, Page 18

The combination of US and German reinsurers highlights reasons behind consolidation of the sector, writes **Richard Lapper**

# Third force emerges in high-risk world


General Re and Cologne Re, respectively the world's fifth and fourth biggest reinsurance companies, have been circumspect in their comments on this week's deal which gives the American company majority control of its erstwhile German rival.

The structure of the deal, valuing Cologne Re's business at an estimated DM2bn ($1.2bn), is complex. General Re will own a majority and Colonia Konzern, Cologne Re's German parent, a minority of a new Netherlands-based holding company, which in turn will control Cologne Re.

But the long-term implications are much clearer.

The deal creates a new and powerful "third force" in the global reinsurance industry, which will challenge the leadership of Germany's Munich Re and Switzerland's Swiss Re.

It also signals further consolidation in an industry where the growing scale of risks, faced by insurance buyers and insurance companies alike, makes size and financial strength all the more important.

From a strategic point of view the new venture makes sense for both parties. Cologne Re was unlikely to obtain the capital it needed to sustain its recent growth from Colonia, now part of Union des Assurances de Paris, France's biggest insurance company.

General Re, which obtains about 85 per cent of its income from the highly developed North American market, has been exploring the possibility of expansion in Europe for several years. In 1991 the group entered into ultimately unsuccessful negotiations to acquire the reinsurance business of Royal Insurance, for example.

Cologne Re, which obtains about 75 per cent of its income from Europe, shares General Re's approach to reinsurance, concentrating on both underwriting profitability and technical proficiency. In addition both companies specialise in the same sectors of the market: relatively high margin "non-proportional" and "facultative" business in which reinsurers have control over premium rates.

Both Munich Re and Swiss Re remain heavily biased towards "proportional" business, in which the reinsurer agrees to accept a set portion of the original premium in return for reinsuring the same proportion of the original risks, less a commission payment.

In non-proportional business the reinsurer agrees to cover a slice of risk, with payments under the policy triggered when an overall loss reaches a certain pre-determined level.

In facultative business the reinsurer provides cover for a single large risk – such as a chemicals plant or an oil rig – which is simply too big for a direct insurance company. Both types of business demand a higher level of technical proficiency, in areas such as risk assessment and surveying, than is typical in the proportional market.

**'The bigger companies are able to point to their balance sheets and that gives comfort to the customer'**

The transaction also makes sense in view of trends in the broader reinsurance industry. The position of smaller and medium-sized reinsurance companies has become steadily less sustainable in recent years. This is because of increases in both the scale of risks – claims arising out of natural catastrophes, for instance – and the size of the reinsurer's customers, following rationalisation in the insurance industry which has created bigger companies.

In London many smaller reinsurance companies and Lloyd's syndicates have been overwhelmed by the string of catastrophe losses that has hit the industry since the late 1980s.

The growing size of these losses, highlighted by hurricane Andrew in 1992 which inflicted the biggest ever loss on the US insurance industry, has led some reinsurers to grow in order to diversify their exposure to large-scale losses.

**TOP 10 REINSURERS**

| Company | Net premiums 1992 ($bn) |
|---|---|
| Munich Re (Ger) | 8.93 |
| Swiss Re (Sw) | 7.29 |
| Employers Re (US) | 3.1 |
| Cologne Re (Ger) | 2.36 |
| General Re (US) | 2.35 |
| Hannover Re (Ger) | 2.2 |
| Assicurazioni Generali (It) | 1.83 |
| Gerling Globale Re (Ger) | 1.71 |
| Lincoln National (US) | 1.66 |
| Frankona Re (Ger) | 1.59 |

Source: Reactions

This in turn can reduce the cost of their own reinsurance protections, purchased in the so-called retrocession (reinsurance of reinsurance) market.

At the same time, reinsurance brokers have become reluctant to place business with companies which have less than £50m in capital, forcing the survivors to seek mergers or other alliances. "The bigger and stronger companies are able to point to their balance sheets and that gives comfort to the customer," says one leading London reinsurance broker.

This has led to consolidation within the reinsurance market. Takeovers have included this month's purchase of Abeille Re, the reinsurance subsidiary of the Victoire group, by SCOR, the growing French reinsurance company. The deal was worth more than FFr2.1bn ($368m).

Other companies – such as leading Scandinavian players Skandia of Sweden, Uni Storebrand of Norway and Sampo of Finland – have reduced the size of their reinsurance operations or withdrawn from the market.

In the Lloyd's market the number of reinsurance underwriters has fallen sharply in recent years and the UK's domestically owned reinsurance industry has shrunk since the late 1980s. Legal & General sold its reinsurance arm, Victory Re, to the Dutch group, NRG, as long ago as July 1990, while other British companies such as M&G Re, owned by the Prudential, and Royal Re have virtually withdrawn from the general reinsurance market.

As one industry analyst says, "There has been a sorting out of the industry, with those companies that offer size, security and capacity coming out on top. The top seven or eight are playing a different game to the rest."

# Enterprise raid takes nearly 10% of Lasmo

By Robert Corzine and David Lascelles, Resources Editor

Enterprise Oil raised the stakes in its long-running bid for fellow explorer Lasmo yesterday by buying nearly 10 per cent of Lasmo's stock from its largest shareholder for cash.

The deal, clinched in a long-awaited raid timed to coincide with the opening of Wall Street, angered other shareholders who are only being offered Enterprise shares and warrants under the terms of the £1.6bn ($2.43bn) bid.

The raid was intended to wrest advantage ahead of the bid deadline at 1pm tomorrow. A number of UK institutional shareholders in Lasmo remain undecided.

Phillips & Drew Fund Management, Lasmo's biggest shareholder, confirmed it had sold 77m shares at 169p per share. PDFM still holds half of its original 16 per cent stake.

Enterprise bought 9.8 per cent of Lasmo shares in two tranches, with 86.8m bought at 169p per share and 7.77m at 161p.

The UK Takeover Panel took no action because Enterprise did not appear to have breached takeover rules, which say a bidder buying shares in the market must offer the same price to all shareholders.

Analysts said Enterprise could have jeopardised its bid by antagonising institutions which were unable to take advantage of the cash offer. But by buying half of PDFM's stake, it reduced the size of Lasmo's biggest shareholder and gained control of a useful portion of its stock.

Lasmo's shares remained firm at 144p, and Enterprise's fell 27p to 381p.

Derivatives, Page 22; Background, Page 26; Lex, Page 18

# Montedison chief upbeat on recovery prospects

By Andrew Hill in Milan

Montedison, the Italian agro-industrial, chemicals and energy group, has begun to overcome the heavy legacy of debt and alleged mismanagement which brought it to its knees last year, according to its board.

That was the cautious message given to shareholders yesterday by Mr Guido Rossi, the group's chairman, and Mr Enrico Bondi, managing director.

It was at last year's shareholder meeting that Montedison revealed mysterious losses at offshore subsidiaries, and told shareholders that group losses were 35 per cent higher than originally announced.

The L435bn "hole" in Montedison's 1992 accounts increased the 1992 group loss to L1,679bn and triggered a series of judicial and financial investigations which are still continuing.

For 1993, Montedison announced a net loss of L1,366bn ($873m) after extraordinary charges of L1,004bn, including L327bn of write-downs on overvalued real estate.

Mr Bondi said yesterday that the group's net operating profit had increased by 33 per cent in the first five months of 1994, compared with the same period last year, making it possible that Montedison will break even this year.

He and Mr Rossi, who took over as managing director and chairman immediately after last year's meeting, also said divestments and restructuring would cut the group's net financial debt to just under L9,500bn by the end of the year, compared with L15,841bn at December 31 1993.

Mr Rossi thanked the banks which agreed a rescue plan for Montedison and its parent, Ferruzzi-Finanziaria (Ferfin), with a L5,400bn refinancing package.

Mr Rossi described the plan, in his letter to shareholders, as "the largest out-of-court financial restructuring in history, in terms of the scale of the indebtedness rescheduled, its geographic dimensions and the number of parties involved".

"Without the participation of the banking system, this group would have gone bankrupt," Mr Rossi told shareholders yesterday.

# Volvo head says failed merger hit development

By Hugh Carnegy in Stockholm

Volvo's vehicle development programme was set back by more than six months when its plan to merge with France's Renault failed, according to Mr Bert-Olof Svanholm, chairman of the Swedish vehicle manufacturer.

But he signalled that the restructured company, now concentrating on its core car and truck making operations, planned to look for acquisitions and partnerships.

"We have certainly lost more than a half-year in the development of Volvo's new model programme through the broken merger with Renault. Now we must raise the tempo," Mr Svanholm told the Swedish business newspaper Dagens Industri.

Under Mr Svanholm, who succeeded Mr Pehr Gyllenhammar after Volvo's withdrawal from the proposed merger last December, Volvo has started selling off its portfolio of non-motor industry interests.

By the end of 1996, Volvo could raise up to $5bn, strengthening its equity-to-assets ratio to 50 per cent and giving it the financial muscle to develop new models – and look for acquisition opportunities. "Acquisition of companies can become a reality for all the companies within Volvo's core operations," Mr Svanholm said.

In a veiled criticism of the Gyllenhammar strategy, Mr Svanholm said the SKr16bn ($2.1bn) Volvo spent on developing its 850-series car was an "immense" sum. "That can hardly be repeated," he said. The huge cost of developing new models was one of the reasons cited in the pursuit of the merger with Renault.

Mr Svanholm said new partnerships and co-operation alliances were under discussion "the whole time". But he said these must be developed by individual divisions of the company, not the board. "The more I learn about alliances and mergers, the more I understand that they must grow from below," he added.

# Daimler faces cultural upheaval

## Schrempp's Dasa initiatives could follow him, writes Paul Betts

When Mr Jurgen Schrempp walks through the front door of Daimler-Benz's Stuttgart headquarters next May to take over as chairman, he is likely to provoke a cultural revolution inside Germany's biggest industrial group, as he has done during the past five years at its aerospace subsidiary, Deutsche Aerospace (Dasa).

The chain-smoking, 49-year-old head of Dasa was always seen as a front runner in the race to succeed Mr Edzard Reuter as chairman of Daimler. He was regarded as Mr Reuter's favourite since he was chosen in 1989 to lead Daimler's risky expansion into the aerospace business.

The only other serious contender for the top job was Mr Helmut Werner, 57, the head of Mercedes-Benz, the vehicle subsidiary.

From the beginning, Mr Schrempp brought to Dasa a tough, no-nonsense US management style coupled with a high political profile. This helped him negotiate concessions from unions, lobby his country's political establishment at a time of growing uncertainty over Germany's commitment to new military programmes, and launch a whole series of international alliances, joint ventures and acquisitions to restore Dasa, and Germany, to the forefront of the international aerospace industry.

Unlike many Stuttgart-based Daimler top executives, he has made a point of communicating with his workforce and outsiders in a frank and open way. On Tuesday, he managed to win union agreement for another 10,300 job cuts and six plant closures at Dasa.

Mr Schrempp has never been frightened to speak his mind. At Dasa he would regularly discuss the problems of the industry and his group with his workers over a beer. Before he was asked by Mr Reuter to lead Daimler's role in restructuring the German aerospace industry, he ruffled feathers at Stuttgart when, as head of Daimler's South African operations, he opposed the company's discriminatory employment policies.

Mr Schrempp has always regarded his time in South Africa as one of his most successful achievements at Daimler, which he joined in 1967. Before being given the daunting task of running Dasa, he had spent his career in the group's motor vehicle operations, rising to become number two at the truck division. He also had a stint in the US where he was in charge of a Daimler commercial vehicle subsidiary in Cleveland, Ohio, which he restructured and sold off.

But Dasa has undoubtedly been both Mr Schrempp's and Mr Reuter's biggest industrial gamble. In five years, Mr Schrempp managed to restructure at breakneck speed the various components of the German aerospace industry absorbed by Daimler into a coherent group which is Europe's biggest aerospace company and the world's number three.

Jurgen Schrempp: brings a tough, no-nonsense style

Convinced that collaboration and consolidation was the only way ahead for the aerospace industry, Mr Schrempp forged a strategic alliance with Pratt & Whitney of the US in the aero-engine sector. He also combined his helicopter business with those of Aérospatiale of France to create Eurocopter, brought some Airbus final assembly to Hamburg, and acquired a majority in Fokker, the Dutch aircraft manufacturer, to give Dasa leadership in the European regional jet business. He is now discussing space and missiles alliances with Aérospatiale.

Mr Schrempp was instrumental in getting the Airbus partners to open discussions with Boeing on jointly developing a superjumbo airliner capable of carrying 800 passengers or more.

But Daimler's drive into the aerospace business to turn Germany, in Mr Schrempp's own words, into "an equal partner with the world leaders and no longer a junior partner," has come at a high cost. When he took over at Dasa, the aerospace industry was flying high with record orders for commercial aircraft and a strong defence market. But within a year, both the civil and defence markets slumped into the worst downturn in the industry since the second world war.

Mr Schrempp found himself in the hot seat. Not only did he have to pursue Germany's expansionary ambitions in aerospace, but also restructure the business to adapt to the new difficult circumstances facing the industry.

If there has been a reassessment in Germany and within Daimler of its adventure into aerospace, it has not changed both Mr Reuter's and Mr Schrempp's long-term strategic vision. "I am comfortable with the strategy but the market is very difficult," Mr Schrempp said a few months ago.

# Krupp Hoesch reduces interim loss to DM50m

By Michael Lindemann

Krupp Hoesch, Germany's second-largest steelmaker, yesterday said it lost DM50m ($30.6m) in the first six months of this year, compared with a loss of DM324m in the same period the year before, but remained confident it would break even this year.

The Essen-based group lost DM590m last year, dragged down by a DM780m loss in the steel division and a small loss at the engineering unit.

Most of the half-year losses came from the steel division, the only one of the group's six divisions not making a profit, but the company said these losses would be "considerably lower" for the full year.

Orders in the first five months were up 12 per cent on the previous year, and sales had increased by 5 per cent over the same period, Mr Gerhard Cromme, chief executive, told the annual meeting.

As part of ongoing restructuring, the steel division, which represented about 35 per cent of 1993 sales, was last week broken up into four separate companies, each focusing on different steel products.

# Ford's German arm sees return to black

By Michael Lindemann in Bonn

Ford-Werke, the German subsidiary of the US motor group, said it would move out of the red and make at least DM100m ($62.5m) profit this year, but warned that the German car market was making only a tentative recovery.

Mr Albert Caspers, chief executive, said new registrations in Germany were likely to increase by just 2 per cent compared with very bad figures the year before.

His comments about the German market reflect those made by Adam Opel, the General Motors subsidiary, which reported a loss of DM503m earlier this week and said only that it hoped for a "dramatic improvement" this year.

Ford-Werke is the largest subsidiary of the US group and includes the Belgian works at Genk.

It exports to 60 countries and lost DM132m last year compared with a loss of DM469m in 1992, but said it made "an impressive three figure million profit" in the first six months of this year.

Mr Caspers blamed the 1993 losses on lower sales and foreign exchange losses. Turnover in 1993 fell 3.7 per cent to DM21.2bn and was set to increase 10 per cent in the coming year.

Impressive sales of the Mondeo had helped and exports to France, the UK and Spain had increased by around 10 per cent.

Ford increased its share of the European car market in 1993 to 11.5 per cent, from 11.2 per cent, and had maintained a German market share of 9.3 per cent.

The company last year set aside DM300m to fund restructuring and said it was unlikely to use all of the sum even after laying off several hundred more of its 43,800 workers this year.

However, the Cologne-based group warned that the good first-half results could not be repeated in the second half, and there was little prospect that the two German factories in Cologne and Saarlouis could increase their capacity above the 80 per cent being worked at the moment.

# Den Danske Bank poised to take control of Baltica

By Hilary Barnes in Copenhagen

Den Danske Bank, Denmark's largest bank, is poised to take control of Baltica, the country's largest insurance company, following the failure of the bank and Goldman Sachs, the international investment bank, to find an alternative buyer.

Danske Bank already has a 32 per cent stake in Baltica and yesterday announced it has been given an option to acquire a further 23 per cent stake, currently owned by Gefion.

Until last year Gefion was the parent company to Baltica, operating as Baltica Holding.

Danske said yesterday that the intended sale of Baltica had been stopped following a judgment by the Danish Supreme Court at the end of last year.

The judgment appears to mean that Baltica cannot draw a dividend from its life assurance and pension savings arm, Danica (formerly Statsanstalten), the formerly state-owned life insurance company which it acquired for DKr4bn ($642m) in 1990.

# UK car-parking group in talks over £700m sale

By David Wighton in London

National Parking Corporation, the secretive UK private company that owns National Car Parks, is in talks which could lead to its sale for more than £700m ($1.06bn) It is thought a UK institution is proposing to buy the group from founders Sir Donald Gosling and Mr Ronald Hobson and float it on the stock market within three or four years.

The company yesterday issued a statement to the London Stock Exchange which said: "The company has received an approach which may or may not lead to an offer for all the shares in the company. This approach is being considered by the board and shareholders will be notified as soon as there is anything to report."

More than half the shares are owned by Sir Donald, 65, and Mr Hobson, who started the company in 1949.

In 1986 they sold 28 per cent of the shares to City institutions including Ensign Trust and Royal Insurance.

It is understood they have received a number of approaches in recent years.

## THE TOKAI BANK, LTD.

21-24, Nishiki 3-chome, Naka-ku, Nagoya 460, Japan

### BALANCE SHEET

March 31, 1994

| | (in millions of yen) |
|---|---|
| **Assets** | |
| Cash and due from banks | 3,547,649 |
| Call loans | 97,624 |
| Commercial paper and other debt purchased | 91,600 |
| Trading account securities | 177,056 |
| Money held in trust | 242,196 |
| Securities | 4,095,539 |
| Loans and bills discounted | 19,976,490 |
| Foreign exchanges | 412,461 |
| Other assets | 640,337 |
| Premises and equipment | 175,473 |
| Customers' liabilities for acceptances and guarantees | 1,780,100 |
| **Total assets** | **31,236,530** |
| **Liabilities** | |
| Deposits | 21,215,034 |
| Certificates of deposit | 1,668,604 |
| Call money | 2,455,984 |
| Bills sold | 500,500 |
| Borrowed money | 1,255,456 |
| Foreign exchanges | 49,970 |
| Convertible bonds | 27,856 |
| Other liabilities | 928,489 |
| Reserve for possible loan losses | 287,889 |
| Reserve for retirement allowances | 35,910 |
| Other reserves | 12,441 |
| Acceptances and guarantees | 1,780,100 |
| **Total liabilities** | **30,218,239** |
| **Stockholders' Equity** | |
| Common stock | 311,931 |
| Legal reserve | 287,452 |
| Earned surplus | 418,907 |
| Net income | 20,743 |
| **Total Stockholders' Equity** | **1,018,291** |
| **Total liabilities and stockholders' equity** | **31,236,530** |

### STATEMENT OF INCOME

April 1, 1993—March 31, 1994

| | (in millions of yen) |
|---|---|
| **Income** | **1,833,098** |
| Interest income | 1,375,147 |
| Interest on loans and discounts | 847,034 |
| Interest and dividends on securities | 154,159 |
| Fees and commissions | 54,815 |
| Other operating income | 79,709 |
| Other income | 323,426 |
| **Expenses** | **1,797,843** |
| Interest expenses | 1,051,589 |
| Interest on deposits | 549,195 |
| Fees and commissions | 14,176 |
| Other operating expenses | 37,565 |
| General and administrative expenses | 238,279 |
| Other expenses | 456,233 |
| Income before income taxes and others | 35,254 |
| Extraordinary profit | 5,658 |
| Extraordinary losses | 6,066 |
| Income before income taxes | 34,847 |
| Provision for income taxes | 14,104 |
| **Net Income** | **20,743** |
| Retained earnings brought forward from previous year | 11,458 |
| Cash dividends | 8,623 |
| Addition to legal reserve | 1,724 |
| Total unappropriated retained earnings | 21,853 |

Notes:
1. Accumulated depreciation of premises and equipment: ¥166,353 million
2. Net income per share: ¥10.22
3. All amounts are rounded down to the nearest million
4. Tokai Bank's fiscal 1993 annual report will be available for perusal at the Bank's London Branch (Bucklersbury House, Walbrook, London EC4N 8EL) from August.



## THE SOUTH AFRICAN BREWERIES LIMITED

Reg. No. 69/16025/06
(Incorporated in the Republic of South Africa)
("SAB")

**Election to receive final cash dividend of 116 cents per ordinary share ("the election")**

Further to the announcements published in the press on 13 and 23 May 1994 regarding the terms of the election and the issue of new fully paid SAB ordinary shares in lieu thereof, SAB reports that allocations of new ordinary shares in SAB were made in respect of 2,745,742 ordinary shares in SAB out of a total possible number of 3,453,798 ordinary shares in SAB, representing a 79.5% issue in lieu of the final cash dividend. Accordingly, the number of ordinary shares in issue in the ordinary share capital of SAB has increased by 2,745,742 ordinary shares from 273,921,894 ordinary shares to 276,667,636 ordinary shares.

The election to receive cash was made in respect of a total of 55,821,263 ordinary shares, resulting in a final cash dividend payment of R65,163,854.96, which includes R411,189.88 for the residual cash dividend payable in lieu of fractions of new SAB ordinary shares to ordinary shareholders receiving shares.

**Listing**

The listing of the 2,745,742 new SAB ordinary shares will commence on The Johannesburg Stock Exchange and on the London Stock Exchange from the commencement of business on Thursday, 30 June 1994.

**Posting of share certificates in respect of new SAB ordinary shares and posting of cheques in respect of the final dividend and residual cash dividend in respect of fractional entitlements to new SAB ordinary shares.**

Share certificates in respect of new SAB ordinary shares and cheques in respect of the final dividend and residual cash dividend in respect of fractional entitlements to new SAB ordinary shares will be posted, in the case of shareholders registered on the South Africa share register, by certified mail and, in the case of shareholders registered on the United Kingdom share register, by first class mail, today.

30 June 1994



## CONTRACTS & TENDERS

INTERNATIONAL COMPANIES AND FINANCE

# Senior creditors threaten to seize Trizec assets

By Bernard Simon in Toronto

Trizec's senior creditors have threatened to seize the Canadian property developer's assets unless a group of recalcitrant junior debenture holders drops its opposition to a C$1.3bn (US$937.5m) debt restructuring plan.

The junior debenture holders, led by three large US investment funds, are the only group holding up the proposed recapitalisation. However, even if they vote against the plan, their objections may be brushed aside by an Alberta court, whose approval is required for implementation.

Under the plan, control of Trizec would pass from Toronto's Bronfman family to Horsham, the holding company controlled by Canadian entrepreneur Mr Peter Munk, and Argo Partnership, a limited partnership managed by New York financier Mr Gerald O'Connor.

Horsham and Argo will together inject as much as C$1bn into the company. Much of this will be used to provide a cash payment to creditors unwilling to accept Trizec securities.

The senior debenture holders, led by Union Bank of Switzerland and including other European investors, noted in a court affidavit that, despite receiving less than all the principal and interest due to them, they had agreed to allow more than C$100m to be distributed to junior debt holders.

Votes on the restructuring plan are scheduled for next Tuesday and Wednesday.

The senior debt-holders said they planned to enforce their security as quickly as possible, "in the event that any class of stakeholders does not approve the plan by the requisite majority".

# Tatra rescue dispute eases

By Vincent Boland in Prague

A management dispute at Tatra, the troubled Czech truck maker, has eased after the company's main shareholders expressed support for its American-led rescue team.

A statement issued after a board meeting yesterday said the Czech investment funds which control 60 per cent of Tatra's equity "expect to reach agreement with [the American management team] for continued involvement with Tatra". Shareholders met on Tuesdayto iron out disagreements over management style.

The team comprises Mr Gerald Greenwald, a former vice-president of Chrysler, the US carmaker, and Mr Jack Rutherford and Mr David Shelby, two former executives of International Harvester. They were offered a 15 per cent stake in the loss-making truck company last year in return for help in returning it to profit.

Some Czech directors were critical of the management team's commitment to Tatra. They complained it did not spend enough time at the company to justify its continued involvement and its reported $120,000 a month retainer. Mr Greenwald rejected the criticism, saying the team expected to fulfil its contract, which continues until next March.

Mr Greenwald is a candidate to become chairman of United Airlines. The statement yesterday said that if he took over at the US carrier, he "[would] probably have a diminished role" at Tatra. The company is to continue hiring senior Czech management "for a transition of operating responsibility", the statement said.

Tatra also said yesterday it had asked the European Bank for Reconstruction and Development to prepare a financial restructuring package. The company has debts of Kcs3.7bn ($132m) and has plunged into losses since its traditional markets in eastern Europe collapsed after the break-up of Comecon, the former communist trading bloc.

# Camdev posts first quarterly profit

By Robert Gibbens in Montreal

Camdev, the surviving company from the 1991-92 collapse and restructuring of Mr Robert Campeau's property and US retailing empire, has posted its first quarterly profit.

Camdev remains a substantial owner of office buildings and land in Ottawa and Toronto. It reported net profit of C$237,000 (US$170,921), or 4 cents a share, for the three months ended April 30, against a loss of C$211,000, or 3 cents, a year earlier. Revenues were little changed at C$20m.

However, chairman Mr Stanley Hartt, who was a lawyer and chief-of-staff to former prime minister Mr Brian Mulroney, warned the profit was mainly due to a C$1.5m dividend received from a minority-owned California supermarket chain. He said the chain needed to reinvest its cash, and Camdev hoped to sell its 12.8 per cent interest.

For the year ended January 1994, Camdev lost C$1.5m, or 24 cents, against a loss of C$13.7m, or C$2.16, a year earlier.

Mr Hartt said Camdev wanted to expand its property management and development activities through a new subsidiary, Finreal Properties.

Finreal will buy distressed real estate and manage and develop properties for sale. It will finance its acquisitions through the capital markets and eventually be taken public, with Camdev retaining a minority interest.

Earlier this year, the Liechtenstein supreme court dismissed an appeal by Camdev to seize Mr Campeau's Austrian château. The company has other litigation outstanding, concerning money it says is owed by Mr Campeau.

# BellSouth to test new multimedia service

By Martin Dickson in New York

BellSouth, the regional telephone company serving the south-eastern US, announced plans for a trial of new interactive multimedia video services to 12,000 homes in metropolitan Atlanta, Georgia, starting next year.

BellSouth has lagged several other large regional US telephone companies in setting up multimedia trials. However, the plan it announced this week will have one novel element: it will combine existing analog cable television services with more advanced digital video services over a shared network.

The use of analog technology means that customers in the trial area can opt to subscribe to BellSouth's cable television service over their existing cable operator without having to buy the new set-top box required to receive the interactive digital services.

Customers will be able to choose between a 60-channel cable television service and possibly more than 300 digital channels offering services such as games and movies.

"We believe our proposal represents the fastest, most economical and fairest way to make these services a reality," said Mr William Reddersen, a senior BellSouth executive.

Telephone companies like BellSouth are forbidden by law from providing cable programming within their own local service region. The company, therefore, plans to lease the cable channels it is setting up to Vanguard Cable, a subsidiary of a Texas-based cable company called Prime II Management. BellSouth is acquiring a stake in another Prime subsidiary.

BellSouth has selected Hewlett-Packard, the computer and instrumentation group, to provide interactive video servers for the field trial.

In January, Pacific Telesis, the California telephone company, announced it had selected HP's servers for commercial deployment in four California markets.

# Caterpillar recovery hits a snag

## A union row is hampering the machinery group, writes Laurie Morse

Caterpillar, the US heavy equipment and machinery company, has been returning to strength on the back of the US economic recovery, with sales and the share price rising steadily since 1992. It is profiting from global expansion in the mining, trucking, construction, and farm sectors, where it has its biggest customers.

However, now that Caterpillar's chronic US labour problems have blown up into a full-scale strike, the company's customers may find themselves looking for other suppliers. Komatsu of Japan, Caterpillar's main competitor in equipment, stands to benefit.

Morgan Stanley analyst Mr John Mackin says although the strike "doesn't affect the long-term outlook" for Caterpillar, it is bad business for everyone involved.

The company earned $345m on sales of $11.2bn in 1993, a big improvement over the previous year's losses. In the first quarter of this year, it reported earnings of $192m, five times higher than in the same 1993 quarter.

Wall Street analysts quickly upgraded their earnings estimates, noting that a 20 per cent gain in first-quarter sales reflected not only the sharp upturn in US demand, but an unexpected surge in orders overseas.

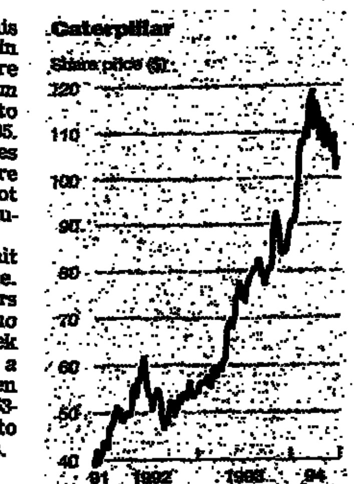
Caterpillar, they said, could easily earn $7.50 a share this year, and as much as $9 in 1995. The company's share price, which has trebled from its 1991 low, is forecast to reach $1.40 by the end of 1995. Although rising interest rates have flattened recent share appreciation, they have not dampened Wall Street's enthusiasm for the company.

However, the strike could hit the company's bottom line. The 14,000 United Autoworkers Union (UAW) members who walked off the job last week had been working without a contract since April 1992, when Caterpillar ended a bitter 163-day strike by threatening to hire permanent replacements.

Animosity between the union and the company has grown in the intervening months, with the union building up a strike fund, rumoured to be close to $1bn.

"This is a classic labour-management struggle and, with no talks planned, its just a question of who blinks first," said Mr John Stark, whose newsletters track the transportation and machinery industries.

The strike was no surprise to the financial community. "We built labour unrest into our credit rating for the company, because they had not been getting along for quite some time," says Mr Tom Carroll, a fixed-income analyst for Duff and Phelps in Chicago. "Now it's just a question of how long it lasts."




Mr Stark says the most immediate problem for Caterpillar is how to honour long-term supply contracts for its diesel engines.

The company is the second-largest North American supplier of heavy-duty truck engines, and the heavy truck industry is in the middle of its biggest rebound, heading toward annual North American production of 200,000 units.

Caterpillar, so far, has managed to maintain production at its key Mossville, Illinois, diesel engine plant by manning it with salaried employees and newly-hired workers.

The company has taken on 1,000 employees since September in response to upbeat production schedules, and has accelerated hiring since the strike. The company also claims 3,000 employees, or about 20 per cent of union-affiliated workers, had crossed the picket lines as of Monday. The UAW strongly disputes those figures.

Mr Jeff Hawkinson of Caterpillar says the diesel engine plant is running at full production, and the company is "revising production schedules based on customer demand" in other product areas.

In some of its big machinery lines, Caterpillar could be in a tight spot. The company was struggling to keep up with surging demand long before the strike, putting many products on "allocation", so they would go directly to a buyer rather than sit in dealers' inventories.

One more expensive option would be to use its plants in Europe and Japan to meet US demand. "We have that ability," said Mr Hawkinson, "A lot of machines we make here [in Peoria, Illinois] are also made in Belgium, and the excavators we make in Aurora [also in Illinois] are the same as those we produce in Japan."

# US hospital chain admits fraud

By Ken Warn in Washington

National Medical Enterprises, a Santa Monica-based hospital chain, has agreed to plead guilty to making illegal payments to secure patient referrals and pay $379m in settlement of civil and criminal charges.

The settlement, which follows a three-year federal investigation of NME's psychiatric hospitals, was due to be announced yesterday by Ms Janet Reno, the US attorney general.

As part of the settlement, the group's NME Psychiatric Hospitals subsidiary is expected to plead guilty to six counts of making illegal payments to secure referral of Medicare patients to its hospitals, and one count of conspiracy to make such payments.

The agreement, which is subject to approval by a federal judge, would be the US's biggest healthcare fraud settlement. Previously, the highest settlement of this type was against National Health Laboratories, which agreed to pay $111m in 1992.

"This settlement will signify that NME is taking full responsibility for its past conduct in certain of its businesses," said Mr Jeffrey Barbakow, chief executive officer. It is not expected to cover individual fraud charges against the company's employees, the company added.

National Medical said earlier this year it had set aside $375m to cover a preliminary agreement with the federal government. Talks have continued since then on finalising the details.

The company says it is divesting its psychiatric hospitals as part of efforts to refocus on its core business of acute care.

The Clinton healthcare plan, and its congressional variants, put great stress on cutting US healthcare costs by eliminating fraud and waste. The administration is likely to cite successful settlement of the NME case in the political battle over health reform.

# Corning sales growth tops expectations

Corning, the US manufacturing group, beat market expectations with strong sales growth in its second quarter, writes Richard Waters in New York.

The group lifted post-tax profits to $111.4m, or 54 cents a share, compared with $89.8m, or 47 cents a share, in the same period in 1993.

Revenues in the three months to June 19 were $1.1bn, up 22 per cent from a year before.

However, around half of the growth stemmed from the acquisition last year of Damon, a medical testing company.

# Spanish financier in write-off move to avoid lawsuits

By Tom Burns in Madrid

Mr Javier de la Rosa, the Spanish financier being sued by the Kuwait Investment Office in connection with the collapse of Grupo Torras, the KIO's Spanish holding company, is to write off his domestic business interests in an attempt to ward off a fresh round of threatened lawsuits.

The lawsuits are being brought by minority shareholders in Mr de la Rosa's loss-making Barcelona investment holding company, Grand Tibidabo.

The write-offs, to be unveiled at Tibidabo's general meeting today, are viewed in Madrid as the final chapter in Mr de la Rosa's extraordinary career – a career marked by acquisitions on behalf of the KIO and by a spreading web of investments that turned the 47-year-old businessman into one of the richest men in Spain.

Mr de la Rosa, who resigned as Grand Tibidabo's chairman in May amid growing shareholder hostility, is to sell his 26 per cent equity in the company back to Tibidabo for a token one peseta, allowing a capital reduction that will help Tibidabo clean up its balance sheet.

Mr de la Rosa's stake represents Pta4.1bn ($31.6m) on the basis of the nominal value of the company's shares.

Tibidabo lost Pta10.9bn last year, a shortfall that took into account provisions for outstanding loans to Mr de la Rosa of some Pta4.3bn. Under the chairmanship of Mr de la Rosa, the had company declared a 1993 loss of Pta319m. The dramatically increased deficit followed an audit by Ernst & Young following Mr de la Rosa's resignation.

Tibidabo was created in 1991 by Mr de la Rosa to serve as his own investment vehicle at a time when he was deputy chairman of Grupo Torras. The following year Mr de la Rosa severed his relations with the KIO and Grupo Torras.

In spite of Mr de la Rosa's write-off at Tibidabo, lawyers representing the company's 9,000 small shareholders are understood to be considering legal action against the former chairman after today's annual meeting.

Mr de la Rosa, together with other senior Grupo Torras executives, is already facing lawsuits in Madrid and London brought by the KIO alleging fraud and mismanagement. He is also being investigated by Spain's fiscal authorities in connection with alleged unpaid taxes.

# Amcor acquires UK corrugated box maker

By Nikki Tait in Sydney

Amcor, the Australian paper group, has bought the 51 per cent interest which it did not own in Willander Holdings, the UK-based corrugated box manufacturer.

The UK company was originally privately owned by three partners. Amcor acquired a 49 per cent interest in March 1991, and has subsequently expanded operations significantly – adding a second corrugator at its Coalville plant in 1993.

Amcor did not disclose details of the latest purchase, but said its total investment was around A$40m (US$30.7m).

● Edels Music, the New South Wales-based music group, has made an 11th-hour bid to acquire Brash Holdings, the Australian electronic goods retailer which called in the administrators last month.

Last week, the administrators announced the planned sale of Brash's main assets to companies associated with Mr Ong Beng Seng, the Singaporean businessman, although creditors have yet to give final approval.

Edels said its deal would give creditors a higher return than the earlier offer.

# Bid for Lasmo could create warrants worth £105m

If Enterprise Oil's £1.7bn ($2.58bn) hostile bid for Lasmo, its fellow UK oil explorer, proves successful, one spin-off will be the creation of the third largest issue in the developing UK warrants market. The all-paper offer of shares and warrants would, if the bid is goes through, create £105m worth of warrants, on underlying shares worth £612m.

So far this year, the amount of warrants issued on UK company shares has totalled $8.5bn equivalent, not far behind last year's $9bn total and far ahead of the $2bn-odd volume recorded in 1991 and 1992, according to Euromoney Bondware. But the UK sector still lags behind the much larger German market, where warrants worth $24bn have been issued so far this year, compared with $27.5bn last year.

In essence, these warrants are little different from options: they give the holder the option to buy shares in a particular company at a predetermined price, within a certain period. But warrants differ from listed options, traded on exchanges, and over-the-counter options, which are specially negotiated bilateral agreements, in several ways.

One raison d'être for the market is that for some fund managers, warrants are "qualified assets" – that is, they are allowed to buy them – while options are not. This is because warrants are classified as securities, since they are bearer, freely-transferable instruments which can be cleared either through Euroclear or Cedel, the two main European clearing houses, or through one of the domestic clearing systems. Warrants also tend to be long-dated, and to be priced far out-of-the-money (that is, the exercise price is not set close to the current share price).

## DERIVATIVES

Within the warrants market itself, the largest issues, such as those by Hanson and BTR in the UK, are launched by the companies themselves. In addition, banks and securities houses often issue "covered" warrants – warrants on individual company stocks, which already exist. They can do this subject to investor demand, provided they have the approval of the company concerned.

A retail investor looking for, say, Nestlé warrants may not care which type he buys, but there are often price disparities. In particular, because covered warrants are often only traded only by the issuing house, the investor is extremely dependent on that firm's commitment to making a secondary market. Because only one house may be trading that issue, it is also inadvisable to go "short" – because it may be extremely difficult to get hold of the warrants later.

Because of its somewhat esoteric qualities, the market often behaves rather strangely. "Warrants often become cheap when the market rallies; at the moment they are quite expensive because the UK stock market has fallen," says Mr Richard Burns, vice-president, equity derivatives sales, at Salomon Brothers. "Prices tend to be slow to react."

The market's liquidity has come in for considerable criticism over the years. "Some banks have issued warrants at the wrong price and have not taken care of their deals in the secondary market and that has given the market a bad name," admitted one warrants trader.

There have also been accusations that some houses issue warrants in order to achieve an impressive position in the league tables, and may not alway be able to place the warrants subsequently.

Nevertheless, the market's continued growth shows it remains attractive for some investors. Individual warrant issues, for example, may be more liquid than the traded options on an individual stock. "If you want to get exposure to Spain, you could buy stock index warrants: the warrants won't be more liquid than the future, but, if you want a more defensive position than the future, they may be more liquid than the options," said one trader.

In addition, there is what one trader called "operational arbitrage" – more simply, "people like to just write one ticket". For some investors, the process of buying a warrant is attractive simply because it is more straightforward.

**Tracy Corrigan**

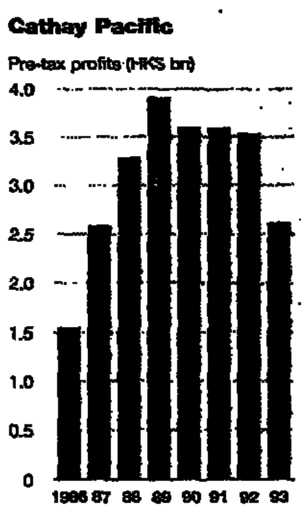
# Political crosswinds catch Cathay Pacific

## Operating problems are putting profit margins under pressure, writes Louise Lucas

For an airline which is the envy of its peers as one of the few international carriers still making a profit, Cathay Pacific is carrying a lot of troublesome baggage.

Its pilots are agitating for more pay. Spiralling costs and growing competition are squeezing returns. And the airline has been caught in a political row between China and Taiwan, resulting in a reduction of flights and forcing Cathay to publicly denounce adverse speculation about its future as Hong Kong's de facto flag carrier.

Peter Sutch: warning on performance this year




Last month, amid mounting stock market concern about Cathay's role under its present ownership after Hong Kong reverts to Chinese control, Mr Peter Sutch, chairman, took the unusual step of circulating a letter from the chairman of John Swire, largest shareholder of Cathay's owner Swire Pacific, which instructed him to "kill this fantasy".

There is a growing suspicion among analysts that after 1997 Cathay will have to take on influential Chinese shareholders. At present the airline is controlled by Swire Pacific, a conglomerate whose credentials are impeccably British.

Swire Pacific owns 51.8 per cent of Cathay. Citic Pacific, the Hong Kong-listed subsidiary of Beijing's investment agency, has 12.8 per cent: and China Travel Services and China National Aviation Corporation have 5 per cent each.

Unfortunately for Cathay, it will take more than an open letter – however strongly worded – to dispel its operating problems. "The airline industry is such a terrible one to be involved with. There are so many factors that are out of the management's control, and airlines are so susceptible to downturn in demand," says Mr Gary Baker, research head at Smith New Court in Hong Kong.

Cathay is hoping to exercise greater control over wage costs, although inflation and union pressure appear to be eroding its efforts. The threat of industrial action is blinking on the horizon as management attempts to thrash out an agreement with pilots.

At issue are pay and productivity. Cathay wants to increase the hours worked by pilots to 700 a year, up from the present 648. Cathay claims it is getting an average of slightly less than 600 hours a year out of its pilots.

The pilots are themselves disgruntled, and fighting for more money. The airline's highest paid pilots, with around 20 years' experience, receive packages worth a shade under HK$4m (US$517,000) a year – among the highest in the world – but newcomers, joining on the "B scale" salaries introduced last April, are earning almost half that of the older hands.

The problem with alienating staff – as Cathay found to its cost last year, after 15 days of industrial action shaved some HK$240m off profits – is that in the service sector clients remember surly faces and cynical voices.

But the biggest threat to profit margins is spiralling costs. The airline has taken steps to defray operating costs by despatching computer and accounts processing operations to Sydney and Guangzhou.

Mr Peter Sutch, chairman, has warned that the airline's financial performance this year is unlikely to be much better than in 1993, when profits fell 23.8 per cent to HK$2.29bn.

In the longer term, airline deregulation in Asia is an obvious threat, clearing the way for more competition. So too is the greater capacity afforded by the colony's pending new airport. The recently launched Virgin Atlantic service between Hong Kong and London is just the tip of the iceberg – the expanding Asia-Pacific is a market most airlines will want to penetrate.

Elsewhere, the airline has been more a victim of circumstance. When the Taiwanese government imposed a ban on tours to the mainland in March – following the murder of 24 Taiwanese on a cruise of Qiandao Lake – Hong Kong was badly affected. The ban on direct Taiwan-China flights means that the colony is the main point of entry for Taiwanese visiting the mainland.

The Taiwanese government lifted its veto in May, although package tours taking in "high risk" locations remain under boycott. Cathay Pacific has been forced to axe 46 flights.

According to Ms Eisha Cheng, aviation analyst with Lehman Brothers in Hong Kong, the cost to Cathay was HK$1m in lost revenue for each flight.

However, Cathay sends some 4,680 flights a year between Hong Kong and Taiwan. The real hit will only come if in some way the Taiwanese become afraid to travel to China, forcing Cathay to continue cancelling flights.

# Burns Philp buys Indian Yeast stake

By Nikki Tait

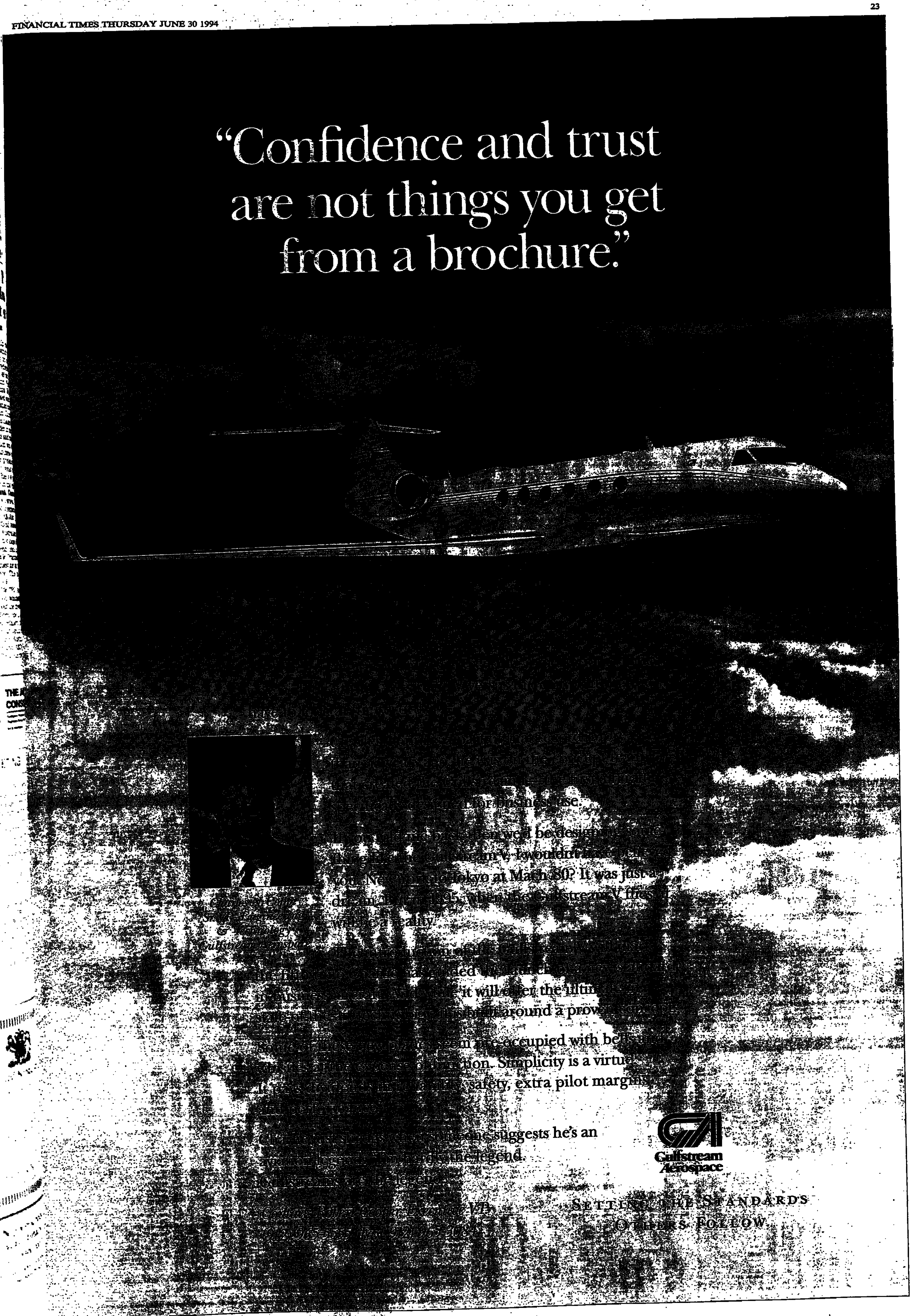
Burns Philp, the Australian company which has been concentrating on building up its food ingredients division, is buying a 49 per cent stake in the Indian Yeast Company from Shaw Wallace for an undisclosed sum.

The Indian company has two plants in Calcutta and Bombay, and claims to be the market leader in the country.

Burns said the purchase consideration was small, but that the business augmented its strong presence in the Asia-Pacific yeast market. Burns Philp has a 40 per cent market share in the region.

● Rank Commercial, the privately-owned New Zealand-based company which is bidding A$500m (US$384.6m) for Foodland Associated, the Western Australian grocery group, will not lodge formal offer documents until a hearing on the Trade Practices Commission's request for an injunction takes place. This is scheduled for July 6.

The TPC, Australia's competition watchdog, is concerned about the involvement of Coles Myers, one of Australia's largest retailers, in the bid. Coles has an option to acquire Foodland's Australian assets for around A$250m if the Rank offer is successful.


"Confidence and trust are not things you get from a brochure."
Gulfstream Aerospace

# Treasuries move forward despite fall in dollar

By Frank McGurty in New York and Graham Bowley in London

US Treasuries moved forward in quiet trading yesterday morning as the bond market set out to ignore the plight of the dollar.

By midday, the benchmark 30-year government bond was ¼ better at 85¼, with the yield slipping to 7.496 per cent. At the short end, the two-year note was unchanged at 99$\frac{25}{32}$, to yield 6.101 per cent.

Activity was sluggish, with most retail accounts choosing to remain on the sidelines until stability returns to the foreign exchange markets. The dollar yesterday reached a new post-war low against the Japanese yen.

The day's economic news was not favourable for those betting against a further rate hike. The Commerce Department sprang a surprise by revising upwards its estimate of the growth in first-quarter gross domestic product from 3.0 per cent to 3.4 per cent.

■ European bond markets moved cautiously higher yesterday in thin trade, in spite of further weakness in the US dollar.

However, sentiment remained fragile, with attention turning towards next week's Bundesbank, US Federal Open Market Committee and G7 meetings for signs of official intervention to protect the embattled US currency. Many analysts were uncertain whether the FOMC session would result in a fifth increase in US interest rates this year.

"The dollar is having less of an impact on European bond markets than anticipated," said Mr Kirit Shah, international bond strategist at First Chicago. "The markets are testing the upside but are encountering resistance, climbing two steps higher then being forced to take one step backwards."

■ UK gilts resumed their better performance seen earlier in the week, with some tentative signs that a more optimistic mood is returning to the market.

The Bank of England's auction of £2bn of floating-rate gilts due 1999 was a success. It was covered 2.72 times, with a lowest accepted price of 99.75 and a tail of 1 basis point – the difference between the average and lowest accepted bid.

## GOVERNMENT BONDS

"I have some conviction that we have seen the worst of the gilt selling," said Mr Andrew Roberts, gilts analyst at UBS. "The success of the auction was a sign that background sentiment is healthy, rather than something which moved the market higher," he said.

"Gilts have benefited from a variety of players over the last few days," said Mr Shah, "such as hedge funds and Japanese buyers, and the findings of the government's white paper on pension reform has helped."

But he doubted whether the bottom of the market had been reached. "The bears are resting. It is difficult for them to make money at the moment as well," he said.

The market's attention will now be on the release tomorrow of the US June NAPM report.

The September long gilt future on Liffe was up $\frac{15}{32}$ points in late trading at 101¾.

■ German government bonds lost some of their gains in late trading but remained ahead, helped by firmer US government bonds.

The Bundesbank announced that it had allocated 14-day securities repurchase funds at this week's tender at a lowest rate of 4.96 per cent, down from last week's rate of 5 per cent and broadly in line with expectations.

There was some disappointment in the market at the outcome of the issue by the Treuhand, the German privatisation agency, of DM2.01bn of 6.375 per cent five-year bonds, with an average yield of 6.46 per cent and a weighted average price of 99.63.

The low price and the fact that the Bundesbank withheld DM1.99bn of the total DM4bn issue for market-tending purposes demonstrated that demand is still weak, analysts said.

But Mr Huw Roberts, assistant bond strategist at NatWest Markets, said: "Normally this would have been a bad outcome but it is really quite a success after the recent supply problems."

Bunds rose in early trading due to a technical short squeeze. They came off slightly on the strong US data.

"There are some signs that the market is beginning to bottom," said Mr Roberts. "If people had wanted to sell off in the last couple of days then were opportunities for them to do so. It is a favourable sign that they did not."

The German September government bond contract on Liffe was up 0.32 points at 92.84 in late trading.

● J. P. Morgan and the Industrial Credit & Investment Corp of India are to form their second joint venture in India, AP-DJ reports. J. P. Morgan is to take a 40 per cent stake in Asset Management, a Bombay-based firm formed by Industrial Credit in 1993 to develop, manage, and market mutual funds in India.

# Luoyang Glass HK listing only just subscribed

By Louise Lucas in Hong Kong

Luoyang Glass, China's biggest manufacturer of float glass and the first of the second wave of Chinese companies to list in Hong Kong, has had its HK$912.5m issue subscribed just 1.02 times.

The company is the 10th China enterprise (H share) to come to the Hong Kong stock market. Like Tianjin Bohai, a HK$408m offering which was barely subscribed last month, it has suffered from a general souring of investor sentiment towards China.

On top of this, the scarcity value which ensured that earlier H share issues were heavily oversubscribed no longer applies, prompting potential applicants to pay closer attention to investment fundamentals.

"Luoyang is just a victim of sentiment. This year will be very critical to China because of the macro-economic situation. There are many uncertainties, and so people are downgrading H shares and giving bigger discounts," said one analyst.

In an effort to counter poor demand, advisers to H share companies in the second batch are pricing the shares at a sharp discount to their predecessors.

Luoyang's shares were sold at a price-earnings ratio of 10.5 times 1994 earnings, compared with ratios of around 13 times and upwards for the bulk of H shares listed last year.

Tsingtao Brewery, which became the first ever H share when it listed last July, was offered on a p/e of 17.9 times 1993 earnings.

The company, benefiting from China frenzy, brand recognition and rarity value, saw its issue more than 110 times subscribed.

Ms Dora Hung, analyst with Goldman Sachs in Hong Kong, says price and fundamentals will be crucial for those coming in the wake of Luoyang Glass.

"The trend going forward will be lower prices. There was a lot of scarcity value attached to Tsingtao's initial public offer, but now the supply has become more balanced," she says.

Based on prevailing market evaluations, she reckons those launching their IPOs in the wake of Luoyang will aim for p/e ratios of between 10 and 13 times, depending upon the industry sector.

For those making basic materials and chemicals, margins are expected to be volatile as the Chinese government seeks to control prices as a means of curbing inflation.

However, certain stocks – of which Guangzhou-Shenzhen Railway is likely to be one – may achieve higher pricing.

Luoyang had also scaled back its issue, offering 250m shares against earlier plans for 300m.

It is believed the China Securities Regulatory Commission, the mainland securities watchdog, may have had a hand in this decision.

In all, 22 companies have been selected this year for an overseas listing and at least five of those are aiming for New York.

Shanghai Haixing Shipping is likely to be among the next to list, while Shandong Huaneng Power Development Company is now leading the race to secure a New York listing.

# Portugal increases global FRN in response to strong demand

By Tracy Corrigan

The first global offering of D-Mark floating-rate notes, launched by the Republic of Portugal yesterday, met strong demand from international investors, prompting an increase in the size of the transaction from an initial DM2bn to DM2.5bn.

The five-year issue, arranged by Deutsche Bank, Morgan Stanley and UBS, was priced to offer a discounted margin of 10 basis points above the London interbank offered rate (Libor).

Dealers said that the pricing of the deal was attractive because FRNs priced at a margin above Libor are still relatively rare.

"The lesson of this year has been that Libor-plus deals go well and sub-Libor deals don't work," said one trader. Banks like to buy FRNs priced above Libor because banks can fund themselves at a lower level.

Around 15 per cent of the transaction was placed in the US, according to one lead manager and, given that the deal was not denominated in dollars, the proportion of US placement was considered respectable.

## INTERNATIONAL BONDS

"Some people had expected it to be a lot less. At that level, it is certainly worth making it a global deal," said one underwriter, adding that similar levels had been achieved for some dollar offerings.

The deal was quoted at its reoffer price of 99.834 towards the end of the day's trading.

Mr Manuel Pinho, director general of the Portuguese Treasury, said that the deal virtually completes Portugal's Es400bn foreign borrowing programme for 1994.

The proceeds have not been swapped. "We do not need the funds immediately, as we have a large cash position," said Mr Pinho.

Meanwhile, Fannie Mae's recent debut global bond offering will be followed shortly by two more global deals by US government agencies.

Freddie Mac's $1.5bn five-year global issue, currently roadshowing in Asia, is likely to be launched in mid-July, with market participants suggesting a launch spread of around 18 basis points over the five-year Treasury yield.

In addition, the Federal Home Loan Bank System will kick off its is expected $5bn global debt programme with a global bond offering, likely to total around $1bn, arranged by Lehman Brothers and Morgan Stanley.

Elsewhere, Finland is considering launching a deal in the international markets, though a currency and maturity have yet to be chosen.

● Credit Foncier de France has launched an Ecu250m five-year revolving credit facility, arranged by J.P. Morgan. The facility will be used to back up its recent Ecu750m euro-commercial paper programme.

## NEW INTERNATIONAL BOND ISSUES

| Borrower | Amount m. | Coupon % | Price | Maturity | Fees % | Spread bp | Book runner |
|---|---|---|---|---|---|---|---|
| **US DOLLARS** | | | | | | | |
| Nestlé Holdings(a) | 200 | 6.50 | 99.775R | Aug.1997 | 0.1875R | +6 (6½%-97) | CS First Boston |
| Bank of Tokyo Curacao Hldg(b)‡ | 110 | (b1) | 100.275 | Aug.2004 | 0.325 | - | Bank of Tokyo Capl.Markets |
| **YEN** | | | | | | | |
| State Bank of New South Wales | 10bn | (c) | 100.20 | Jul.1997 | 0.20 | - | Merrill Lynch International |
| **D-MARKS** | | | | | | | |
| Republic of Portugal‡ | 2.5bn | (d) | 99.834R | Jul.1999 | 0.15R | - | Deutsche/M.Stanley/UBS |
| **CANADIAN DOLLARS** | | | | | | | |
| European Investment Bank | 150 | 9.00 | 99.85R | Aug.1998 | 0.20R | +5 (e) | Daiwa Europe |
| Rabobank Nederland | 100 | 8.00 | 99.975R | Aug.1997 | 0.1875R | +15 (e) | Wood Gundy |
| Banque Indosuez | 75 | 9.50 | 100.50R | Aug.1998 | 0.25R | +32 (e) | ScotiaMcLeod |
| **SWISS FRANCS** | | | | | | | |
| KfW Intl.Finance, Delaware★★ | 100 | 5.50 | 102.50 | Aug.1998 | standard | - | Merrill Lynch Capl.Mkts. |

Final terms and non-callable unless stated. The yield spread (over relevant government bond) at launch is supplied by the lead manager. ‡Floating rate note. ★★Private placement. R: fixed re-offer price; fees are shown at the re-offer level. a) Puttable if Nestlé SA reduces stake below 51%. b) Callable on 4/8/97 at par. b1) 6-mth Libor +½% for 1st 3 yrs and 9½% fxd annual thereafter. c) 1st yr: 3%, 2nd yr: 3.4%, 3rd yr: 3.8%. d) 3-mth Libor +$\frac{1}{16}$% (6-mth for 1st coupon). e) Over interpolated yield.

## WORLD BOND PRICES

### BENCHMARK GOVERNMENT BONDS

| | | Coupon | Red Date | Price | Day's change | Yield | Week ago | Month ago |
|---|---|---|---|---|---|---|---|---|
| Australia | | 9.000 | 09/04 | 95.8100 | +0.680 | 9.65 | 9.75 | 8.88 |
| Belgium | | 7.250 | 04/04 | 95.9500 | +0.300 | 7.85 | 8.10 | 8.22 |
| Canada * | | 6.500 | 06/04 | 82.5500 | +0.800 | 9.22 | 9.42 | 8.85 |
| Denmark | | 7.000 | 12/04 | 91.9600 | +0.330 | 8.17 | 8.42 | 8.39 |
| France | BTAN | 8.000 | 05/98 | 104.5000 | +0.130 | 6.64 | 7.03 | 6.69 |
| | OAT | 5.500 | 04/04 | 87.5700 | +0.420 | 7.32 | 7.63 | 7.48 |
| Germany Treuhand | | 6.750 | 05/04 | 98.5300 | +0.050 | 6.96 | 7.20 | 7.04 |
| Italy | | 8.500 | 01/04 | 90.1300 | +0.480 | 10.14† | 10.47 | 10.07 |
| Japan | No 119 | 4.800 | 06/99 | 105.1100 | -0.090 | 3.59 | 3.86 | 3.29 |
| | No 164 | 4.100 | 12/03 | 98.7200 | -0.330 | 4.29 | 4.41 | 4.17 |
| Netherlands | | 5.750 | 01/04 | 91.2600 | +0.060 | 7.03 | 7.12 | 7.20 |
| Spain | | 10.500 | 10/03 | 100.0500 | +0.150 | 10.47 | 10.88 | 10.02 |
| UK Gilts | | 6.000 | 08/99 | 91-05 | +10/32 | 8.15 | 8.31 | 8.48 |
| | | 6.750 | 11/04 | 88-23 | +23/32 | 8.39 | 8.59 | 8.79 |
| | | 9.000 | 10/08 | 104-13 | +26/32 | 8.46 | 8.63 | 8.77 |
| US Treasury * | | 7.250 | 05/04 | 100-04 | +7/32 | 7.23 | 7.15 | 7.22 |
| | | 6.250 | 08/23 | 85-07 | +12/32 | 7.50 | 7.44 | 7.48 |
| ECU (French Govt) | | 6.000 | 04/04 | 87.7200 | +0.230 | 7.84 | 8.16 | 7.96 |

London closing, *New York mid-day. Yields: Local market standard.
† Gross (including withholding tax at 12.5 per cent payable by nonresidents)
Prices: US, UK in 32nds, others in decimal. Source: MMS International

### US INTEREST RATES

| Lunchtime | | Treasury Bills and Bond Yields | | | |
|---|---|---|---|---|---|
| Prime rate | 7¼ | One month | 4.09 | Two year | 6.10 |
| Broker loan rate | 5½ | Two month | 4.17 | Three year | 6.40 |
| Fed.funds | 4$\frac{7}{16}$ | Three month | 4.25 | Five year | 6.86 |
| Fed.funds at intervention | - | Six month | 4.72 | 10-year | 7.23 |
| | | One year | 5.46 | 30-year | 7.51 |

### BOND FUTURES AND OPTIONS

#### France

■ NOTIONAL FRENCH BOND FUTURES (MATIF)

| | Open | Sett price | Change | High | Low | Est. vol. | Open int. |
|---|---|---|---|---|---|---|---|
| Sep | 115.98 | 116.50 | +0.20 | 116.84 | 115.82 | 198,582 | 138,289 |
| Dec | 115.00 | 115.80 | +0.20 | 115.80 | 114.92 | 1,925 | 11,361 |
| Mar | 114.26 | 114.86 | +0.20 | 114.26 | 114.26 | 2 | 250 |

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

| Strike Price | Calls Jul | Calls Sep | Calls Dec | Puts Jul | Puts Sep | Puts Dec |
|---|---|---|---|---|---|---|
| 112 | - | - | - | - | 0.80 | 1.35 |
| 113 | - | 4.37 | - | 0.02 | 0.97 | - |
| 114 | 2.40 | - | - | 0.04 | 1.20 | - |
| 115 | 1.50 | 2.93 | - | 0.05 | 1.44 | - |
| 116 | 0.60 | 2.33 | 2.40 | 0.25 | 1.74 | 2.90 |

Est. vol. total, Calls 27,174 Puts 43,294. Previous day's open int., Calls 365,970 Puts 388,558.

#### Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

| | Open | Sett price | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Sep | 92.37 | 92.64 | +0.12 | 92.86 | 92.19 | 118260 | 145533 |
| Dec | 91.96 | 91.92 | +0.12 | 92.10 | 91.90 | 1089 | 6348 |

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

| Strike Price | Calls Aug | Calls Sep | Calls Oct | Calls Dec | Puts Aug | Puts Sep | Puts Oct | Puts Dec |
|---|---|---|---|---|---|---|---|---|
| 9250 | 1.15 | 1.59 | 1.43 | 1.75 | 1.01 | 1.45 | 2.01 | 2.33 |
| 9300 | 0.92 | 1.31 | 1.22 | 1.46 | 1.28 | 1.67 | 2.30 | 2.54 |
| 9350 | 0.70 | 1.07 | 1.04 | 1.24 | 1.56 | 1.93 | 2.62 | 2.82 |

Est. vol. total, Calls 11187 Puts 10704. Previous day's open int., Calls 227539 Puts 205834

■ NOTIONAL MEDIUM TERM GERMAN GOVT. BOND (BOBL)(LIFFE)* DM250,000 100ths of 100%

| | Open | Sett price | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Sep | | 97.67 | +0.12 | | | 0 | 76 |

#### Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

| | Open | Sett price | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Sep | 104.15 | 105.20 | +0.71 | 105.56 | 104.05 | 38408 | 56797 |
| Dec | | 104.15 | +0.71 | | | 0 | 100 |

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

| Strike Price | Calls Sep | Calls Dec | Puts Sep | Puts Dec |
|---|---|---|---|---|
| 10500 | 2.33 | 3.06 | 2.13 | 3.91 |
| 10550 | 2.08 | 2.84 | 2.38 | 4.19 |
| 10600 | 1.83 | 2.64 | 2.63 | 4.49 |

Est. vol. total, Calls 1213 Puts 1201. Previous day's open int., Calls 28018 Puts 23354

#### Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

| | Open | Sett price | Change | High | Low | Est. vol. | Open int. |
|---|---|---|---|---|---|---|---|
| Sep | 90.32 | 90.47 | +0.11 | 90.60 | 89.57 | 55,718 | 97,895 |
| Dec | 89.40 | 90.15 | -0.45 | 89.40 | 89.40 | 1 | 4 |

#### UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

| | Open | Sett price | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Sep | 100-28 | 101-21 | +0-23 | 102-01 | 100-24 | 54438 | 118123 |
| Dec | 100-19 | 100-21 | +0-23 | 100-19 | 100-19 | 18 | 411 |

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

| Strike Price | Calls Sep | Calls Dec | Puts Sep | Puts Dec |
|---|---|---|---|---|
| 101 | 2-34 | 3-16 | 1-56 | 3-38 |
| 102 | 2-00 | 2-52 | 2-22 | 4-10 |
| 103 | 1-35 | 2-26 | 2-57 | 4-48 |

Est. vol. total, Calls 2803 Puts 2510. Previous day's open int., Calls 59941 Puts 45434

#### Ecu

■ ECU BOND FUTURES (MATIF)

| | Open | Sett price | Change | High | Low | Est. vol. | Open int. |
|---|---|---|---|---|---|---|---|
| Sep | 84.04 | 84.20 | +0.16 | 84.44 | 83.80 | 929 | 5,710 |
| Dec | - | 83.76 | +0.16 | - | - | - | - |

#### US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

| | Open | Latest | Change | High | Low | Est. vol. | Open int. |
|---|---|---|---|---|---|---|---|
| Sep | 102-09 | 102-10 | +0-01 | 102-18 | 101-31 | 402,704 | 364,447 |
| Dec | 101-17 | 101-18 | +0-02 | 101-25 | 101-10 | 1,511 | 44,279 |
| Mar | 101-04 | 100-30 | +0-09 | 101-04 | 100-30 | 63 | 3,528 |

#### Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

| | Open | Close | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Sep | 109.56 | | | 109.72 | 109.11 | 3616 | 0 |

* LIFFE contracts traded on APT. All Open Interest figs. are for previous day.

### FT-ACTUARIES FIXED INTEREST INDICES

| Price Indices UK Gilts | Wed Jun 29 | Day's change % | Tue Jun 28 | Accrued interest | xd adj. ytd | | Low coupon yield Jun 29 | Jun 28 | Yr. ago | Medium coupon yield Jun 29 | Jun 28 | Yr. ago | High coupon yield Jun 29 | Jun 28 | Yr. ago |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 Up to 5 years (24) | 121.35 | +0.09 | 121.24 | 1.71 | 5.77 | 5 yrs | 8.22 | 8.26 | 6.92 | 8.39 | 8.44 | 7.09 | 8.49 | 8.53 | 7.28 |
| 2 5-15 years (22) | 140.89 | +0.45 | 140.26 | 2.17 | 6.42 | 15 yrs | 8.37 | 8.43 | 7.94 | 8.50 | 8.57 | 8.02 | 8.78 | 8.85 | 8.29 |
| 3 Over 15 years (9) | 158.65 | +0.47 | 157.91 | 2.91 | 5.41 | 20 yrs | 8.34 | 8.38 | 8.08 | 8.50 | 8.57 | 8.11 | 8.62 | 8.67 | 8.33 |
| 4 Irredeemables (6) | 177.86 | +0.24 | 177.44 | 1.16 | 7.36 | Irred.† | 8.46 | 8.48 | 8.24 | | | | | | |
| 5 All stocks (61) | 138.48 | +0.34 | 138.01 | 2.14 | 6.09 | | | | | | | | | | |

| Index-linked | Wed Jun 29 | Day's change % | Tue Jun 28 | Accrued interest | xd adj. ytd | | Inflation 5% Jun 29 | Jun 28 | Yr. ago | Inflation 10% Jun 29 | Jun 28 | Yr. ago |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 6 Up to 5 years (2) | 186.63 | +0.08 | 186.47 | 1.22 | 2.53 | Up to 5 yrs | 3.71 | 3.74 | 2.97 | 2.68 | 2.70 | 2.21 |
| 7 Over 5 years (11) | 171.44 | +0.16 | 171.17 | 0.71 | 2.65 | Over 5 yrs | 3.90 | 3.91 | 3.52 | 3.71 | 3.72 | 3.33 |
| 8 All stocks (13) | 172.13 | +0.15 | 171.87 | 0.76 | 2.63 | | | | | | | |

| Debentures and Loans | Wed Jun 29 | Day's change % | Tue Jun 28 | Accrued interest | xd adj. ytd | 5 year yield Jun 29 | Jun 28 | Yr. ago | 15 year yield Jun 29 | Jun 28 | Yr. ago | 25 year yield Jun 29 | Jun 28 | Yr. ago |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 9 Debs & Loans (76) | 128.90 | +0.26 | 128.59 | 2.24 | 5.60 | 9.58 | 9.64 | 8.31 | 9.51 | 9.55 | 9.01 | 9.44 | 9.47 | 9.17 |

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

### FT FIXED INTEREST INDICES

| | June 29 | June 28 | June 27 | June 24 | June 23 | Yr ago | High* | Low* |
|---|---|---|---|---|---|---|---|---|
| Govt. Secs. (UK) | 92.47 | 92.29 | 92.40 | 91.71 | 92.10 | 97.22 | 107.04 | 90.99 |
| Fixed Interest | 109.85 | 109.87 | 109.24 | 109.15 | 108.45 | 115.24 | 133.87 | 107.33 |

* for 1994. Government Securities high since compilation: 127.40 (9/1/35), low 49.18 (3/1/75). Fixed Interest high since compilation: 133.87 (21/1/94), low 50.53 (3/1/75). Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974

### GILT EDGED ACTIVITY INDICES

| | June 28 | June 27 | June 24 | June 23 | June 22 |
|---|---|---|---|---|---|
| Gilt Edged bargains | 98.3 | 98.1 | 76.3 | 92.4 | 93.4 |
| 5-day average | 91.7 | 90.6 | 90.7 | 94.1 | 94.9 |

## UK GILTS PRICES

| Notes | Yield Int | Yield Red | Price £ | + or – | 1994 High | 1994 Low |
|---|---|---|---|---|---|---|
| **Shorts (Lives up to Five Years)** | | | | | | |
| Treas 10pc Ln 1994‡‡ | 10.00 | - | 100 | ..... | 102$\frac{1}{16}$ | 100 |
| Exch 12½pc 1994 | 12.36 | 5.05 | 101⅛ | ..... | 104$\frac{15}{32}$ | 100$\frac{15}{16}$ |
| Treas 9pc 1994‡‡ | 8.87 | 5.19 | 101$\frac{1}{16}$ | -$\frac{1}{32}$ | 103$\frac{13}{32}$ | 101$\frac{1}{16}$ |
| 12pc 1995 | 11.57 | 5.27 | 103$\frac{3}{4}$xd | -$\frac{1}{16}$ | 107$\frac{7}{32}$ | 103¼ |
| Exch 3pc Gas 90-95 | 3.08 | 5.00 | 98$\frac{1}{16}$ | -$\frac{1}{32}$ | 98$\frac{3}{16}$ | 97¼ |
| [illegible] | | | | | | |
| 10¼pc 1995 | 9.81 | 5.87 | 104$\frac{15}{32}$xd | ..... | 107$\frac{15}{32}$ | 104$\frac{15}{32}$ |
| Treas 12¾pc 1995‡‡ | 11.75 | 6.19 | 108$\frac{15}{32}$ | ..... | 113⅝ | 108$\frac{15}{32}$ |
| 14pc 1996 | 12.57 | 6.54 | 110$\frac{7}{16}$xd | ..... | 117$\frac{1}{16}$ | 110$\frac{7}{16}$ |
| 15¼pc 1996‡‡ | 13.35 | 6.87 | 114¼ | ..... | 121$\frac{11}{32}$ | 114$\frac{1}{16}$ |
| Exch 13¼pc 1996‡‡ | 11.94 | 6.89 | 110$\frac{31}{32}$ | ..... | 117$\frac{13}{32}$ | 110⅞ |
| Conversion 10pc 1996 | 9.45 | 7.25 | 105$\frac{13}{16}$ | +$\frac{1}{16}$ | 112$\frac{7}{16}$ | 105$\frac{13}{32}$ |
| Conv 7pc 1997‡‡ | 7.05 | 7.28 | 99$\frac{5}{16}$ | +$\frac{1}{32}$ | 100$\frac{3}{16}$ | 98$\frac{1}{16}$ |
| Treas 13¼pc 1997‡‡ | 11.68 | 7.40 | 113$\frac{15}{32}$xd | +$\frac{3}{32}$ | 121$\frac{11}{32}$ | 112⅞ |
| Exch 10½pc 1997 | 9.81 | 7.49 | 107$\frac{1}{16}$ | +$\frac{1}{32}$ | 114$\frac{7}{16}$ | 106$\frac{13}{16}$ |
| Treas 8¾pc 1997‡‡ | 8.53 | 7.78 | 102$\frac{7}{16}$ | +$\frac{1}{16}$ | 110$\frac{1}{16}$ | 101$\frac{13}{16}$ |
| Exch 15pc 1997 | 12.47 | 7.93 | 120¼ | +⅛ | 131$\frac{13}{32}$ | 118$\frac{15}{16}$ |
| 9¾pc 1998 | 9.27 | 8.04 | 105¼xd | +$\frac{1}{16}$ | 114$\frac{11}{16}$ | 104$\frac{1}{16}$ |
| Treas 7¼pc 1998‡‡ | 7.43 | 7.99 | 97$\frac{9}{16}$ | +$\frac{3}{16}$ | 106$\frac{5}{32}$ | 96⅝ |
| Treas 6¾pc 1995-98‡‡ | 7.04 | 8.02 | 95$\frac{15}{16}$ | +⅛ | 102 | 94$\frac{11}{16}$ |
| 14pc '98-1 | 11.80 | 8.28 | 118$\frac{11}{16}$ | +$\frac{1}{16}$ | 131$\frac{1}{32}$ | 117⅞ |
| Treas 15½pc '98‡‡ | 12.31 | 8.13 | 125⅞ | +$\frac{3}{16}$ | 140$\frac{1}{16}$ | 124$\frac{13}{16}$ |
| Exch 12pc 1998 | 10.58 | 8.27 | 113$\frac{13}{32}$ | +$\frac{1}{16}$ | 125$\frac{11}{16}$ | 112$\frac{3}{16}$ |
| Treas 9½pc 1999‡‡ | 9.06 | 8.23 | 104⅝xd | +⅛ | 116$\frac{3}{16}$ | 103$\frac{3}{16}$ |
| **Five to Fifteen Years** | | | | | | |
| Exch 12¼pc 1999 | 10.68 | 8.39 | 114$\frac{23}{32}$ | +$\frac{1}{32}$ | 128$\frac{5}{32}$ | 113¾ |
| Treas 10½pc 1999 | 9.70 | 8.37 | 108$\frac{5}{16}$ | +$\frac{1}{16}$ | 121$\frac{1}{16}$ | 106⅞ |
| Treas 6pc 1999 ‡‡ | 6.58 | 8.15 | 91⅛ | +⅛ | 101$\frac{13}{16}$ | 89$\frac{13}{16}$ |
| Conversion 10¼pc 1999 | 9.54 | 8.47 | 107$\frac{13}{32}$ | +⅛ | 121$\frac{13}{32}$ | 105⅞ |
| Treas Flg Rate '99 | - | - | 99$\frac{25}{32}$ | ..... | 100$\frac{1}{32}$ | 99$\frac{25}{32}$ |
| 9pc 2000‡‡ | 8.79 | 8.43 | 102$\frac{13}{32}$ | +$\frac{3}{16}$ | 116$\frac{3}{16}$ | 101¼ |
| Treas 13pc 2000 | 10.82 | 8.63 | 120⅛xd | +$\frac{3}{16}$ | 136$\frac{13}{32}$ | 118$\frac{3}{16}$ |
| 10pc 2001 | 9.38 | 8.64 | 106$\frac{21}{32}$ | +$\frac{3}{16}$ | 122$\frac{1}{16}$ | 104$\frac{7}{16}$ |
| 7pc '01 ‡‡ | 7.59 | 8.42 | 92$\frac{7}{32}$ | +$\frac{3}{16}$ | 106$\frac{7}{32}$ | 90$\frac{3}{16}$ |
| 7pc '01 A | 7.61 | 8.48 | 92$\frac{1}{32}$ | +$\frac{3}{16}$ | 101$\frac{7}{32}$ | 89$\frac{31}{32}$ |
| 9¾pc 2002 | 9.18 | 8.66 | 106$\frac{3}{16}$ | +$\frac{13}{32}$ | 123$\frac{3}{16}$ | 103¾ |
| 8pc 2003‡‡ | 8.28 | 8.53 | 96⅝ | +½ | 113$\frac{13}{32}$ | 94$\frac{3}{16}$ |

| Notes | Yield Int | Yield Red | Price £ | + or – | 1994 High | 1994 Low |
|---|---|---|---|---|---|---|
| 10pc 2003 | 9.23 | 8.65 | 108$\frac{5}{16}$ | +$\frac{3}{16}$ | 127$\frac{1}{16}$ | 105$\frac{13}{16}$ |
| Treas 11½pc 2001-4 | 10.17 | 8.84 | 113$\frac{3}{16}$ | +$\frac{13}{32}$ | 128$\frac{15}{32}$ | 110⅝ |
| Funding 3½pc '99-4 | 4.79 | 7.37 | 73⅛xd | -$\frac{1}{16}$ | 88$\frac{3}{16}$ | 71$\frac{3}{16}$ |
| Conversion 9½pc 2004 | 8.94 | 8.56 | 106$\frac{7}{32}$ | +$\frac{13}{32}$ | 125$\frac{3}{16}$ | 103 |
| Treas 6¾pc 2004‡‡ | 7.61 | 8.38 | 88$\frac{11}{16}$ | +$\frac{13}{32}$ | 106⅛ | 85$\frac{13}{16}$ |
| Conv 9½pc 2005 | 8.91 | 8.53 | 106⅝ | +$\frac{13}{32}$ | 125½ | 103¾ |
| [illegible] | | | | | | |
| Treas 12½pc 2003-5 | 10.23 | 8.94 | 122$\frac{3}{16}$ | +$\frac{13}{32}$ | 143$\frac{1}{16}$ | 119$\frac{1}{16}$ |
| 7¾pc 2006‡‡ | 8.20 | 8.47 | 94½ | +$\frac{3}{16}$ | 112$\frac{13}{32}$ | 91½ |
| 8pc 2002-6‡‡ | 8.34 | 8.53 | 95$\frac{15}{16}$ | +$\frac{3}{16}$ | 111⅝ | 93$\frac{3}{16}$ |
| Treas 11¾pc 2003-7 | 10.09 | 8.93 | 116½xd | +$\frac{13}{32}$ | 136$\frac{3}{16}$ | 113⅝ |
| Treas 8½pc 2007 ‡‡ | 8.48 | 8.47 | 100$\frac{3}{16}$xd | +$\frac{13}{32}$ | 119$\frac{3}{16}$ | 98$\frac{13}{16}$ |
| 13½pc '04-8 | 10.46 | 8.94 | 129$\frac{1}{16}$ | +$\frac{13}{32}$ | 151$\frac{1}{16}$ | 125⅝ |
| Treas 9pc 2008 ‡‡ | 8.63 | 8.46 | 104$\frac{13}{32}$ | +$\frac{13}{32}$ | 124$\frac{13}{32}$ | 101 |
| **Over Fifteen Years** | | | | | | |
| Treas 8pc 2009 | 8.33 | 8.44 | 96 | -⅛ | 115$\frac{3}{16}$ | 93 |
| Treas 6 1/4pc 2010 | 7.62 | 8.27 | 81$\frac{13}{32}$ | +$\frac{3}{16}$ | 98$\frac{3}{16}$ | 78$\frac{3}{16}$ |
| Conv 9pc Ln 2011 ‡‡ | 8.56 | 8.42 | 105$\frac{3}{16}$xd | +⅛ | 126$\frac{13}{16}$ | 101$\frac{1}{16}$ |
| Treas 9pc 2012‡‡ | 8.54 | 8.41 | 105⅜ | +⅛ | 127⅝ | 101$\frac{3}{16}$ |
| Treas 5½pc 2008-12‡‡ | 7.32 | 8.15 | 75⅛ | +⅛ | 93⅞ | 72$\frac{1}{16}$ |
| Treas 8pc 2013‡‡ | 8.30 | 8.36 | 96$\frac{13}{32}$ | +$\frac{3}{16}$ | 117$\frac{13}{32}$ | 92$\frac{3}{16}$ |
| 7¾pc 2012-15‡‡ | 8.24 | 8.34 | 94$\frac{1}{16}$xd | -$\frac{3}{16}$ | 114⅝ | 91$\frac{1}{16}$ |
| Treas 8¾pc 2017‡‡ | 8.41 | 8.35 | 104$\frac{1}{16}$ | +$\frac{3}{16}$ | 128⅝ | 99$\frac{13}{16}$ |
| Exch 12pc '13-'17 | 9.09 | 8.59 | 132$\frac{1}{16}$ | +$\frac{13}{32}$ | 159⅛ | 127⅛ |
| **Undated** | | | | | | |
| Consols 4pc | 8.67 | - | 46⅛xd | -$\frac{1}{16}$ | 58⅝ | 44$\frac{13}{16}$ |
| War Loan 3½pc‡‡ | 8.38 | - | 41¾ | +$\frac{1}{16}$ | 54$\frac{13}{16}$ | 39$\frac{13}{16}$ |
| Conv 3½pc '61 Aft. | 6.03 | - | 58 | +$\frac{13}{16}$ | 71 | 55¼ |
| Treas 3pc '66 Aft. | 8.57 | - | 35 | +$\frac{3}{16}$ | 44⅜ | 33⅜ |
| Consols 2½pc | 8.60 | - | 29$\frac{1}{16}$ | ..... | 38½ | 28$\frac{1}{16}$ |
| Treas. 2½pc | 8.63 | - | 29$\frac{3}{16}$ | +$\frac{1}{16}$ | 37⅜ | 27$\frac{13}{16}$ |

| Index-Linked | Notes | Yield (1) | Yield (2) | Price £ | + or – | 1994 High | 1994 Low |
|---|---|---|---|---|---|---|---|
| | (b) | | | | | | |
| 2pc '96 | (67.9) | 2.84 | 3.69 | 199⅝ | +⅛ | 203⅝ | 197$\frac{13}{16}$ |
| 4⅝pc '98‡‡ | (135.6) | 2.71 | 3.48 | 107$\frac{13}{16}$ | +⅛ | 113$\frac{3}{16}$ | 106$\frac{3}{16}$ |
| 2½pc '01 | (78.3) | 2.38 | 3.78 | 165$\frac{3}{16}$ | +⅛ | 176⅝ | 163¾ |
| 2½pc '03 | (78.8) | 3.48 | 3.82 | 161⅛ | +⅛ | 173⅝ | 159$\frac{3}{16}$ |
| 4⅜pc '04‡‡ | (135.6) | 3.59 | 3.82 | 109⅝ | +⅛ | 118⅝ | 107⅝ |
| [illegible] | | | | | | | |
| 2pc '06 | (69.5) | 3.57 | 3.62 | 167$\frac{3}{16}$xd | +$\frac{3}{16}$ | 184$\frac{13}{32}$ | 165$\frac{3}{16}$ |
| 2½pc '09 | (78.8) | 3.66 | 3.89 | 151 | +$\frac{3}{16}$ | 168$\frac{7}{16}$ | 149⅛ |
| 2½pc '11 | (74.6) | 3.69 | 3.89 | 156 | +$\frac{3}{16}$ | 175⅝ | 154¼ |
| 2½pc '13 | (89.2) | 3.72 | 3.90 | 128¼ | +⅛ | 145⅛ | 126⅝ |
| 2½pc '16 | (81.6) | 3.75 | 3.92 | 136$\frac{3}{16}$ | +⅛ | 157$\frac{3}{16}$ | 134⅝ |
| 2½pc '20 | (83.0) | 3.79 | 3.94 | 130$\frac{3}{16}$ | +$\frac{3}{16}$ | 152$\frac{13}{16}$ | 128½ |
| 2½pc '24‡‡ | (97.7) | 3.79 | 3.92 | 108$\frac{3}{16}$xd | +⅛ | 126$\frac{3}{16}$ | 106⅝ |
| 4⅛pc '30‡‡ | (135.1) | 3.81 | 3.94 | 107⅛xd | +⅛ | 126$\frac{13}{16}$ | 106⅝ |

Prospective real redemption rate on projected inflation of (1) 10% and (2) 5%. (b) Figures in parentheses show RPI base for indexing (ie 8 months prior to issue) and have been adjusted to reflect rebasing of RPI to 100 in January 1987. Conversion factor 3.945. RPI for October 1993: 141.8 and for May 1994: 144.7.

### Other Fixed Interest

| Notes | Yield Int | Yield Red | Price £ | + or – | 1994 High | 1994 Low |
|---|---|---|---|---|---|---|
| African Dev 11¼ 2010 | 9.32 | 8.80 | 119⅝ | +$\frac{3}{16}$ | 142$\frac{3}{16}$ | 115$\frac{13}{16}$ |
| Asian Dev 10¼pc 2009 | 9.16 | 8.78 | 111$\frac{13}{16}$ | +$\frac{13}{32}$ | 138⅝ | 108$\frac{13}{16}$ |
| B'ham 11½pc 2012 | 9.75 | 9.42 | 118 | ..... | 142 | 115 |
| Ireland Cap 8½pc '10 | 8.61 | - | 98⅜ | +½ | 118½ | 95½ |
| 9pc Cap 1996 | 8.87 | - | 101⅛ | ..... | 109½ | 100 |
| 13pc '97-2 | 11.71 | - | 111 | ..... | 115¾ | 108¼ |
| Hydro Quebec 15pc 2011 | 10.46 | 9.70 | 143½ | +$\frac{13}{16}$ | 169$\frac{13}{16}$ | 139$\frac{13}{16}$ |
| Leeds 13½pc 2006 | 10.67 | - | 126½ | ..... | 149¾ | 125½ |
| Liverpool 3½pc Irred. | 9.59 | - | 36⅝ | ..... | 44⅜ | 33⅜ |
| LCC 3pc '20 Aft. | 9.52 | - | 31½ | ..... | 40½ | 28⅜ |
| Manchester 11½pc 2007 | 10.02 | 9.52 | 114⅝ | ..... | 138⅝ | 112 |
| Met. Wtr. 3pc 'B' | 4.41 | 8.20 | 68 | ..... | 78 | 66½ |
| N'wide Anglia 3⅞pc 2021 | - | 4.59 | 130½ | ..... | 150¼ | 129⅞ |
| 4⅛pc IL 2024 | - | 4.59 | 125 | ..... | 145¼ | 123⅞ |
| Utd Mex States 16½pc 2008 | 11.81 | - | 139½ | ..... | 169¼ | 136 |

● 'Tap' stock. ‡‡ Tax-free to non-residents on application. E Auction basis. xd Ex dividend. Closing mid-prices are shown in pounds.

## FT/ISMA INTERNATIONAL BOND SERVICE

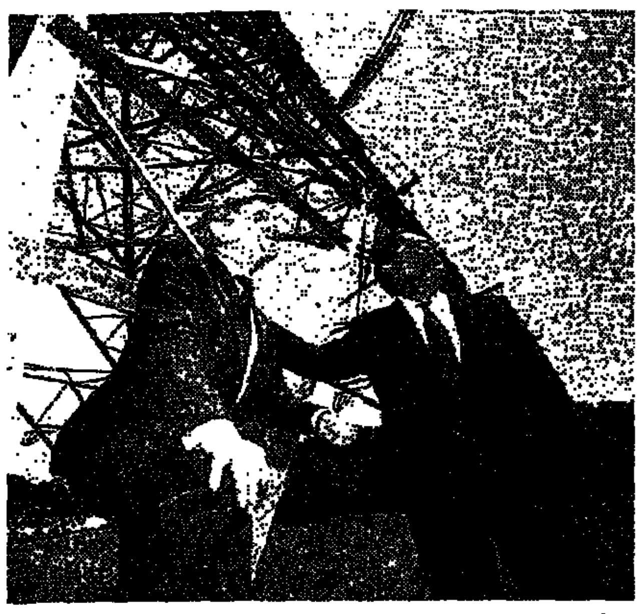
Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:00 pm on June 29

| | Issued | Bid | Offer | Chg. | Yield |
|---|---|---|---|---|---|
| **U.S. DOLLAR STRAIGHTS** | | | | | |
| Abbey Natl Treasury 6½ 03 | 1000 | 91½ | 91¾ | -⅛ | 7.86 |
| Alberta Province 7⅞ 98 | 1000 | 101¼ | 101½ | | 7.28 |
| Austria 8½ 00 | 400 | 105 | 105¾ | -⅛ | 7.38 |
| Bank of Tokyo 8⅞ 96 | 100 | 102⅝ | 103¼ | -⅛ | 6.71 |
| Belgium 5½ 03 | 1000 | 85¼ | 85½ | -⅛ | 7.77 |
| BFCE 7¾ 97 | 150 | 102½ | 102¾ | -⅛ | 6.83 |
| [illegible] | | | | | |
| United Kingdom 7¼ 97 | 5500 | 102⅛ | 102¼ | +⅛ | 6.38 |
| Volkswagen Intl Fin 7 03 | 1000 | 97⅝ | 98⅛ | +¼ | 7.35 |
| World Bank 0 15 | 2000 | 20½ | 20¾ | -¼ | 7.66 |
| World Bank 5⅞ 03 | 3000 | 91½ | 91⅝ | +¼ | 7.14 |
| World Bank 8⅛ 00 | 1250 | 110 | 110⅜ | +⅛ | 6.61 |
| **SWISS FRANC STRAIGHTS** | | | | | |
| [illegible] | | | | | |
| Abbey Natl Treasury 8 03 £ | 1000 | 92⅝ | 92⅞ | +⅛ | 9.25 |
| Alliance Leics 11⅜ 97 £ | 100 | 108⅛ | 108½ | +¼ | 8.06 |
| British Land 8⅞ 23 £ | 150 | 88⅛ | 88⅝ | | 10.41 |
| Denmark 6¾ 98 £ | 800 | 94½ | 94⅞ | +¼ | 8.38 |
| EIB 10 97 £ | 637 | 105 | 105¼ | +⅛ | 7.78 |
| Halifax 10⅜ 97 £ | 100 | 105¾ | 106⅛ | +⅛ | 7.87 |
| Hanson 10⅜ 97 £ | 500 | 105½ | 105½ | +⅛ | 8.50 |
| [illegible] | | | | | |

STRAIGHT BONDS: The yield is the yield to redemption of the bid-price; the amount issued is in millions of currency units. Chg. day=Change on day.
FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. Spread=Margin above six-month offered rate (three-month §above mean rate) for US dollars. C.cpn=The current coupon.
CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

# Eastern Electricity falls slightly to £177m

By Michael Smith



Colin Beere
James Smith, chairman (left), and John Devaney: ability to buy back more shares would give the company greater flexibility

Eastern Electricity said yesterday it was seeking permission from shareholders to buy back up to 14.9 per cent of its shares as it announced a 3.6 per cent fall in pre-tax profits.

Mr John Devaney, chief executive, said this would give the company greater flexibility but it had not yet decided whether to buy back more shares on top of the 5 per cent already bought.

In the year to March 31 profits were £177m (£186m) after exceptional costs of £48.3m (£1.5m credit), of which £38.3m (£13.7m) related to restructuring costs and £26.8m to a premium on repurchasing government debt offset by regulatory income from previous years of £16.8m (£15.2m).

Mr Eric Anstee, finance director, said the restructuring and bond exceptionals would both enhance future earnings.

The underlying profit was £225m (£182m), he said. This had been achieved through rigorous cutting of costs, which were down by 11 per cent.

Some 640 staff left the electricity business during the year, leaving the total at 5,539. The company expects several hundred more to go this year.

Group turnover fell from £1.92bn to £1.85bn. The board is recommending a final dividend of 16.4p, bringing the total to 23p (19.2p), up 20 per cent.

There was net cash at the year end of £55.5m, compared with borrowings of £143.2m, which gave gearing of 17 per cent.

The company is also considering changing its name to Eastern Group to reflect better the widening range of activities.

● **COMMENT**

Once considered the sector dullard, Eastern's star has risen rapidly in the past 18 months as the management belatedly followed others in cutting costs. Taking the most obvious available measure, the company has cut 30 per cent of core jobs since privatisation, probably slightly more than the average rec in spite of the late start. The market also appears to approve the fancy footwork shown by Mr Anstee, finance director since the end of last year, in redeeming government debt, arranging bond issues and implementing share buy-backs. Assuming a 13 per cent dividend rise this year, yesterday's 27p price rise to 614p puts the shares on a prospective yield of 5.3 per cent, near the top of the recs' rating table. Nonetheless, some investment houses feel that in implementing so much change ahead of the regulatory review the company may struggle to impress after it is concluded. Others may be playing a cannier game by holding back the best.

# Tring Intl scores 56% rise

By Michael Skapinker, Leisure Industries Correspondent

Tring International, the music group which was floated in February, yesterday announced a 56 per cent rise in annual pre-tax profits to £5.2m.

The figure for the year to March 31 compared with £5.1m forecast in the flotation prospectus and a pre-tax profit of £3.3m in 1992-93.

The group said it was negotiating with several supermarket chains to stock its low-priced compact discs.

The arrangement with the Royal Philharmonic Orchestra had also been expanded and the RPO would now record 125 albums on the Tring label, rather than the 50 originally agreed.

The group said it had reached an agreement with JVC, the Japanese electronics company, to distribute its products in China.

Mr Mark Frey, joint chief executive, said legal action against Tring by music companies PolyGram, MCA and K-Tel International was continuing. The three companies are suing Tring for alleged copyright violations.

Mr Frey said settlements of previous disputes had shown that any damages were likely to be small. Tring had indemnities, allowing it to claim any damages and costs awarded against it from the licensors of the music concerned.

Mr Frey said he believed there would continue to be a significant price difference between CDs sold by large companies and by Tring. Tring's CDs retail at £3.99 or less.

Turnover in the 12 months rose by 35 per cent to £22.2m (£16.5m). Earnings increased to 8.46p (5.47p). As flotation only took place in February, no dividend is declared. The first dividend will be an interim for the first half of the current year.

# Victory parade or a retreat . . .

## Robert Corzine on the closing hours of the hostile bid for Lasmo

At 1pm tomorrow Lasmo's defence committee of senior executives and directors should be able to discard the trappings of a company under siege.

The "secure" paper shredder, fax and photocopier – the main modern-day weapons of a company defending itself against a hostile takeover bid – can be unplugged after two months of steady frontline service. Down can come the notices dotted around the company's Broadgate headquarters warning staff not to " . . .discuss any Lasmo business in lifts, lobbies or any public places".

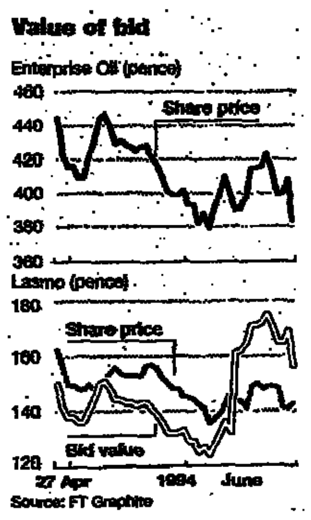
Also due to depart will be a small army of City advisers, who will walk away in the best traditions of mercenary soldiers with £20m to £25m of shareholders' cash regardless of whether Lasmo is successful or not in defending against Enterprise Oil's £1.6bn all-paper bid.

The only question is whether the departures will take the form of a victory parade or a retreat. And that will depend on the actions over the next 30 hours or so of a relatively small number of UK and US fund managers.

Last night the Lasmo defence team was locked in a "council of war" to assess the damage from Enterprise's stock market raid yesterday afternoon, in which it snapped up about 10 per cent of Lasmo shares – the maximum that Enterprise was allowed to buy in the market.

The defence committee also had to decide on a course of action for today, when it makes its final presentations to institutions.

The raid, in which Phillips and Drew Fund Management, Lasmo's biggest shareholder, sold about half its holding in the company, will be certain to influence many institutions which have found precious little guidance from the arguments put forward by the Lasmo and Enterprise camps during the contest.

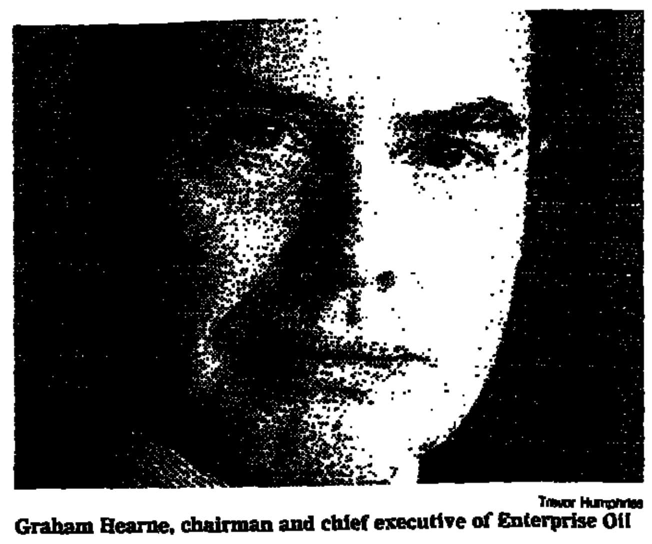



"No side has hit home with the killer blow," said one fund manager yesterday just before the raid on Lasmo shares.

Enterprise has clung to its original position that there is a sound industrial case behind the takeover attempt. But it suffered badly from a clumsy start to the campaign and its initial reluctance to spell out the benefits in detail.

Many analysts dismiss Enterprise claims that the asset mix of a combined company would be complementary. Some also challenge the claim that Lasmo will be unable, in spite of its recent rights issue, to fund all its promising development opportunities – especially in Algeria and Colombia where it has recently announced new discoveries.

What is not disputed is the fact that Enterprise would benefit from the inclusion of Lasmo assets. In the medium term they would bolster cash flow, improve the balance sheet and add a safety margin to the company's ability to pay dividends. The broader asset base would also enhance Enterprise's well-regarded ability to swap and trade assets. That ability was cited yesterday by one of Lasmo's smaller institutional shareholders as one of the reasons for supporting the Enterprise bid.



Trevor Humphries
Graham Hearne, chairman and chief executive of Enterprise Oil

Lasmo has counter-attacked on a number of issues, ranging from Enterprise's accounting standards, dividend policy and record in international exploration. But none appears to have had a decisive effect on shareholders. One UK shareholder which decided yesterday to back Lasmo said it was not so much its defence that swayed them, as much as a failure on the part of Enterprise to "make its case".

Lasmo's gearing to higher oil prices was another factor cited by some investors as a reason to stick with the company. The argument that Lasmo's restructured management team has begun to turn the company's fortunes around also found some favour with investors.

"It is difficult for the acquirer to convince investors that it will do something more than what the refurbished Lasmo management team can do," said one institutional shareholder. Another, however, found little reason to support the continuing existence of two large exploration and production companies. "Lasmo as a company has had its chance," he said.

But much of the talk among shareholders before yesterday's raid centred on cash, or the lack of it. Enterprise claimed that its carefully constructed all-paper final offer of 36 Enterprise A shares and 13 warrants for every 88 Lasmo shares took into account the concerns of large shareholders in both companies.

A British investor, however, noted that the "missing ingredient is cash . . .that would have led to a much clearer debate".

That view was shared among investors in the US who up until yesterday held more than 20 per cent of Lasmo shares. One US investor said before the raid: "We've told them from day one – cash talks. If they want to put some cash into the bid, fine. If not, we'll take our chances with Lasmo. Unless they want to pull a dawn raid, they're out of time."

It appears from yesterday's events that Enterprise took heed of that warning. But it remains to be seen whether the effects of the single foray they are allowed to make in the market will be enough to swing sentiment behind them.

See Capital Markets

# Northern Electric rises 16% and promises cut in price

By David Lascelles, Resources Editor

Northern Electric, which supplies electricity to the north-east of England, promised its customers a price reduction later this year after announcing a 16 per cent increase in pre-tax profits.

The exact size of the cut would depend on the outcome of the regulatory price review, Mr David Morris, chairman, said yesterday. But part of the money will be due to customers anyway because the official price formula overestimated the rate of inflation last year.

For the year to March 31 profits rose from £111.4m to £128.7m. The after-tax result was £98.3m (£85.3m), equivalent to earnings per share of 79.8p (69.3p). A recommended final dividend of 17.45p brings the total for the year to 24.85p (21.45p), a rise of 16 per cent, with earnings cover unchanged at 3.2.

Turnover rose from £882.7m to £1.03bn, with most of the increase coming from Northern's aggressive move into supplying large customers outside its area. It now has 9 per cent of this market, including large contracts with Marks and Spencer, C&A and British Rail. Supply profit was £5.8m (£3.7m) and the company sees this rising to £11m next year because of the effects of the price review and further market gains. The improved profits were helped by cost-cutting. Staff numbers were down by 200 over the year, and reductions of that order are foreseen in the years ahead.

Profits from non-regulated businesses also improved, including retailing and North Sea gas which Northern recently entered in partnership with Neste, the Finnish oil company. Mr Morris described diversification ventures as "important pegs in the ground to secure future growth".

● **COMMENT**

Northern has never been a City darling, and this was, by its own admission, an average result. But it bears closer scrutiny. The company has made the strongest pitch among the recs for the supply market, and is viewed by its competitors as a ferocious price cutter. So the fact that it is forecasting a near doubling of supply profits this year suggests that market share is not being bought at the expense of earnings. It has also gone furthest into gas exploration and production, and is building an integrated gas supply business which will be worth watching. However, the recent strength of the share price owes as much to speculation about a Scots bid as it does to profit expectations. The prospective yield on a 28p dividend after yesterday's 23p gain in the share price to 670p is 4.2 per cent, which is about the average for the sector.

# HTV signs local cable TV programme deal

By Raymond Snoddy

HTV, the ITV company for Wales and the west, has signed a deal to make 500 hours of local programmes annually for 140,000 cable homes throughout the Avon cable franchise area.

The two-hour daily programme, described as "local info-tainment," is almost certainly the most extensive programming relationship between an ITV company and the cable television industry.

Mr David Treadway, managing director of United Artists Communications, which commissioned the new programme, said yesterday its success would open new opportunities for other local programming ventures.

The project will be produced by Hybrid TV, a six strong-team of young media graduates hired by HTV.

HTV plans to set up two more of the graduate units – one based at Bristol and the other at HTV's Cardiff centre.

The programme deal follows the decision by Flextech, controlled by TCI of Denver, the largest cable company in the US, to take a 20 per cent stake in HTV for about £27m.

In another example of new local cable programming, Associated Newspapers plans to launch a 24-hour cable channel, largely based on news, called Channel One.

# Daejan jumps to £19.5m

Daejan Holdings, the property company, yesterday announced a 17 per cent rise in pre-tax profits from £16.7m to £19.5m for the year ended March 31, writes David Blackwell.

Net rental income rose from £16.4m to £19.1m and there was a £7.89m (£6.42m) surplus on sale of trading properties. Operating profits from continuing operations improved from £18.5m to £22.4m.

The surplus on the sale of investment properties improved from £727,000 to £1.28m.

Earnings moved ahead from 81p to 85.7p. The dividend is up from 27p to 29p with a final of 17p.

Net asset value per share was estimated at £17.

# Restructuring and new products elevate TGI

By John Jeetun

TGI, the designer and manufacturer of loudspeaker products, reported a surge in pre-tax profits – from £409,000 to £1.25m – in the year to March 31.

Turnover rose 5 per cent to £35.8m (£34m). Operating profit expanded to £1.56m (£587,000) and retained profit rose to £694,000 (£278,000), helping reduce the deficit in the profit and loss account.

TGI said the improved performance resulted from the introduction of new products and the benefits of restructuring. Earnings per share expanded 86 per cent to 5.2p (2.8p) while the total dividend is lifted to 2p (1.5p) via an increased final of 1.4p.

Exports increased to £24.8m (£22m) and accounted for 69 per cent of total sales.

Future prospects were said to be good in the light of the substantial investment made in new products and manufacturing improvements as well as some £1.27m spent on research and development. TGI is also considering strategic acquisitions.

# James Finlay shares dip after profits warning

By David Blackwell

Shares in James Finlay, the overseas trading and financial services group, fell sharply to 65p in early trading yesterday following a warning that profits from tea production in Kenya would decline more than expected.

However, the shares later recovered to close at 75p, still down 5p on the day.

Mr Richard Muir, chairman, blamed the effect of drought in the first four months of the year, coupled with inflation and other currency factors.

The group is expecting a tea crop of about 20m kg, compared with an exceptional 22.3m kg last year.

# Bluebird Toys graduates to main market

As foreshadowed at the annual meeting last month, Bluebird Toys is graduating from the USM to the main market. Dealings in the ordinary shares and convertible loan stock will commence on July 4.

The directors, headed by Mr Torquil Norman, chairman, have already forecast a rise in pre-tax profits from £1.99m to not less than £6.5m for the first half of 1994.

Earlier this week Mr Norman disposed of 275,000 ordinary shares via a private placing through Smith New Court Securities.

The sale followed the appointment of Mr Chris Burgin as group chief executive and Mr Norman's relinquishment of that role.

## DIVIDENDS ANNOUNCED

| | | Current payment | Date of payment | Corres - ponding dividend | Total for year | Total last year |
|---|---|---|---|---|---|---|
| Asprey | fin | 4.8 | Aug 15 | 4 | 6.05 | 5.1 |
| Daejan | fin | 17 | Oct 3 | 15 | 29 | 27 |
| Eastern Elect | fin | 16.4 | Oct 3 | 13.7 | 23 | 19.2 |
| Enviromed | int | 0.2 | Aug 5 | - | - | - |
| Feedback § | fin | 1 | Aug 15 | 1.5 | 1.5 | 1.5 |
| Heavitree § | int | 1 | Aug 5 | 0.6 | - | 3.6 |
| I&S Optimum | fin | 1.95 | - | - | 7.6 | 7.4 |
| Metrotect Inds | fin | 2.3 | Aug 11 | - | 3.45 | - |
| Northern Elect | fin | 17.45 | Oct 4 | 15.15 | 24.85 | 21.45 |
| Sutcliffe Speak | fin | 0.5 | Oct 3‡ | nil | 0.5 | nil |
| TGI | fin | 1.4 | Aug 26 | 1 | 2 | 1.5 |

Dividends shown pence per share net except where otherwise stated. §USM stock. ‡Corrected payment date.

## PUBLIC WORKS LOAN BOARD RATES
Effective June 28

| Years | "Lower" quota rates EPI† | "Lower" quota rates AT†† | "Lower" quota rates maturity§ | "Higher" quota rates EPI† | "Higher" quota rates AT†† | "Higher" quota rates maturity§ |
|---|---|---|---|---|---|---|
| 1 | - | - | 5¾ | - | - | 5⅞ |
| Over 1 up to 2 | 6⅛ | 6⅛ | 6⅛ | 6¼ | 6¼ | 7¼ |
| Over 2 up to 3 | 6⅞ | 6⅞ | 7⅝ | 7 | 7 | 8 |
| Over 3 up to 4 | 7⅜ | 7½ | 8⅜ | 7½ | 7⅝ | 8½ |
| Over 4 up to 5 | 7¾ | 7⅞ | 8⅝ | 7⅞ | 8 | 8¾ |
| Over 5 up to 6 | 8 | 8⅛ | 8¾ | 8⅛ | 8¼ | 8⅞ |
| Over 6 up to 7 | 8¼ | 8⅜ | 8⅞ | 8⅜ | 8½ | 9 |
| Over 7 up to 8 | 8⅜ | 8½ | 8⅞ | 8½ | 8⅝ | 9⅛ |
| Over 8 up to 9 | 8½ | 8⅝ | 8⅞ | 8⅝ | 8¾ | 9¼ |
| Over 9 up to 10 | 8⅝ | 8⅞ | 8⅞ | 9⅛ | 9¼ | 9¼ |
| Over 10 up to 15 | 8⅞ | 8¾ | 8¾ | 9⅛ | 9¼ | 9¼ |
| Over 15 up to 25 | 8⅞ | 8⅞ | 8¾ | 9¼ | 9¼ | 9⅛ |
| Over 25 | 8¾ | 8⅝ | 8⅝ | 9⅛ | 9 | 9 |

*Non-quota loans A are 1 per cent higher and non-quota loans B 2 per cent higher in each case than quota loans. †Equal instalments of principal. ††Repayment by half-yearly annuity (fixed equal half-yearly payments to include principal and interest). § With half-yearly payments of interest only.

# Acquisitions behind 18% growth at Asprey

By Caroline Southey

Acquisitions helped Asprey, the jewellery retailer which also owns Garrard and Mappin & Webb, raise pre-tax profits by almost 18 per cent to £25.4m in the 12 months to March 31.

Although the Asprey business continued to contribute more than 75 per cent of profits and 55 per cent of sales, acquisitions made during the past two years contributed £18.6m to turnover, helping to push the total up by almost 30 per cent, from £144.7m to £187.6m.

On a year-on-year basis sales rose by 16.8 per cent.

Mr Naim Attallah, chief executive, said: "Margins are under pressure and we are steadily developing cash-generative businesses to offset our other operations."

He said he intended to pursue organic growth by opening more high-street outlets for Watches of Switzerland and Mappin & Webb.

"Our customer base must be widened so that the effect of future recessions will not be so severe," he said.

Mr Attallah added that since acquiring Watches of Switzerland in June 1992 the total number of outlets has been increased to 32.

In the last financial year a new trading name, Zeus, was launched, aimed at a younger client base and offering a lower price range than Watches of Switzerland.

A Mappin & Webb shop will be launched in Prague in October. An Asprey office had been opened in Hong Kong and the Asprey and Garrard operations were seeking new markets, especially overseas, although the company has for the time being abandoned plans to open an Asprey store in Shanghai.

Asprey was also considering expanding Les Ambassadeurs, the watch and jewellery retail chain acquired last year. It also bought Ronald A Lee, an antique clocks and furniture retailer.

The company has set up a £20m revolving credit facility with the Bank of Scotland. At the year end net cash was unchanged at £13m.

Asprey shares moved from the USM to the Official List last July after Sears, the retail group, sold its 25 per cent stake in the company.

A final dividend of 4.8p is recommended, making a total of 6.05p (5.1p) for the year.

Earnings per share jumped to 21.12p (14.44p), after an "abnormally low tax charge", due to an over-provision last time.

# Float values Exco at £215m

By David Wighton

Exco, the money broking group, will be valued at £215.5m at the flotation price of 175p announced yesterday.

The price has been set at 9.5 times last year's earnings with a notional historic dividend yield of 6 per cent.

Mr Ron Sandler, chief executive, said that despite difficult conditions in the new issue market the response from institutions had been good. "We had to spend more time than most companies explaining the business but everyone wanted to see us."

About 43 per cent of Exco's shares are being sold with the administrator of British & Commonwealth disposing of its final 40 per cent holding. Funds by Gartmore and Robert Fleming are releasing about a quarter of their holdings and a few shares are being sold by staff. There is no new money being raised by the company.

Just over 53m shares are being placed with investors by NM Rothschild.

● **COMMENT**

Exco has forecast a jump in profits to £27.5m (£21.4m) for the six months to June prompting analysts to predict up to £49m for the full year. That puts the shares at the issue price on a multiple of just 8. Exco has clearly failed completely to change the idea that money brokers are highly cyclical businesses, with a reputation for corporate disasters whose assets can walk out the door. Yet the geographic and product diversity of the big four has improved the quality of earnings while the increasing importance of global operations has raised the barriers to entry. Securities broking may go through a sticky patch in the short-term and there are longer term pressures in foreign exchange. But there are enough new opportunities in areas such as derivatives to compensate. Exco looks set for its second successful flotation.

# Lloyd Thompson shares hit by warning

By Richard Lapper

The market value of Lloyd Thompson fell by about 20 per cent yesterday after the insurance and reinsurance broker issued a profits warning.

Lloyd, one of the fastest growing and most profitable London brokers in recent years, said it expected pre-tax profits for the year to June 30 of at least £18m.

Analysts had been expecting more than £19m but the group said investment income would be substantially lower than anticipated owing to sharp falls in the value of fixed interest securities and lower interest rates.

Investment income was expected to be at least £3.8m, compared with £6m last year. Growth in income from core brokerage would be similar to the 3 per cent reported at the interim stage.

The market reacted by marking the shares down 45p to 185p, a drop of nearly 50 per cent since last summer.

The group also announced the purchase of a 49 per cent stake in Triangle Holdings, a Bermuda-based broker, in a deal worth up to \$5.39m (£3.54m). It has an option, exercisable during the second half of 1997, to acquire the remainder as well as the outstanding minority interests in Triangle's two subsidiaries

Lloyd will pay an initial \$3m in cash with a further profit-related consideration of up to \$2.39m.

Triangle's main subsidiary, Triangle Brokerage, specialises in liability business. Brokerage for the year to December 31 amounted to \$2.1m.

# Charter welds on fourth leg

## Andrew Bolger reports on the offer for Esab, a long-awaited deal

It was with obvious relief that Mr Jeffrey Herbert, chief executive of Charter, was able yesterday to unveil the kind of large acquisition which the market has been waiting for him to make.

The offer for Esab, the Swedish welding company, will more than double the size of the UK group, which in recent years had been focused into three areas - building materials, coal and rail track equipment.

Unscrambling Charter's links with Johnson Matthey and Minorco gave the group its independence - but also the problem of how best to utilise the £156m in cash left after ending the South African connection.

Mr Herbert said that Charter's market share in its existing niche businesses was high, so it was difficult to invest more in them - hence the need to acquire a fourth leg.

The Swedish group fitted perfectly his oft-rehearsed acquisition criteria - being international, with market leadership and industrial customers in mature markets, which offer scope for growth and adding value.

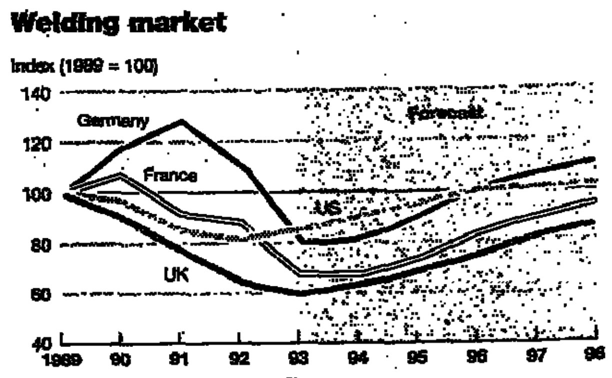
According to Charter, Esab is the world market leader in welding products, and is either number one or two in five of the G7 countries.

Growth prospects partly come from the economic cycle. The level of welding activity closely tracks GDP growth, and the chart illustrates the forecast upturn in the market.

Weakened competitors are also a factor. Mr Herbert said US rivals had expanded rapidly in Europe in the late 1980s "just the wrong time" and had withdrawn "having had their fingers badly burned".

Charter claims that Lincoln, the US company which is number two to Esab in world market share, incurred losses of \$134m (£88.1m) in Europe from 1990-93 and now has a heavily geared balance sheet.

**Welding market**




Source: Industry, Bank of America and Charter

Esab also suffered in the recession. Operating profits have collapsed from £40m in 1989 to £7m last year. However, the company forecasts operating profits of £27m in the current year, and analysts expect at least £40m next year.

Mr Herbert said Esab was not any kind of basket case, and he did not see this as a turnround.

Welding consumables, such as rods and fluxes, which comprise 55 per cent of turnover, remained profitable throughout the recent downturn. The welding equipment division, which accounts for 28 per cent of sales, had been losing money but was "now turning".

Esab has spent £20m over the last three years in restructuring. It has reduced its western European workforce by 35 per cent and embarked on a product rationalisation programme.

Charter believes this process can be pushed further. Mr Herbert said Esab's management was very competent "but we focus on cash and margin management - they're not so good on that".

The UK group runs a lean organisation, with only 30 people in its London head office. Charter said a direct comparison with the 300 who work at Esab's head office in Gothenburg would be unfair, since they carried out a wider range of tasks, but there will clearly be scope for reductions.

Mr Herbert is a firm believer in functional, vertical management on the Anglo-Saxon model, with executives taking direct responsibility for defined operations. The Swedish company's matrix management system seems unlikely to survive for long in the enlarged group. However, Mr Lars Westerberg, who has been Esab's chief executive since 1990, would remain with the group.

Charter is also keen to discover how transportable Esab products are. The Swedish group has 16 production units located in Europe, North and South America and south-east Asia.

Mr Herbert will examine the scope to utilise excess production capacity in low-cost areas, such as eastern Europe, where Esab has a dominant position.

The quality of output from the eastern European plants was high, he said, so it might be possible to use some of it in more high-cost economies.

Charter would also want to develop Esab's activities in new markets, such as Latin America and east Asia, particularly China. The group has a strong position in Brazil, but so far no presence in China, where it is likely to go for joint ventures.

Mr Herbert said: "We've had the time and access for extensive research and due diligence. As a result I'm convinced this is a business we can grip."

# Deal marks latest step in rejig of Wallenberg empire

By Hugh Carnegy in Stockholm

Incentive's sale yesterday of its controlling stake in Esab to Charter is the latest step in a significant post-recession rejig within itskey industrial holdings by Sweden's powerful Wallenberg family.

At the same time, Charter's move is the biggest foreign takeover of a Swedish company since the purchase last year of Nobel Industries by Akzo of the Netherlands.

Such foreign acquisitions are still rare in Sweden - and were blighted by the shareholder revolt that last December scuppered Volvo's plan to merge its vehicle manufacturing with France's Renault.

But Esab, which like Volvo is based in Gothenburg, appeared confident yesterday that reaction would be positive, as it was when Akzo swallowed Nobel. The deal certainly went down well with investors in Incentive, who pushed up the B shares by SKr5 to SKr245 (£20.77) in an otherwise nervous market.

The disposal of Esab follows the completion earlier this month of Incentive's SKr8.4bn acquisition of Cardo, formerly a Volvo offshoot. Both deals were part of a move by Incentive to reshape its holdings, which form the main hands-on industrial arm of the Wallenberg empire.

Its activities include power generation, materials handling, and the Hasselblad camera making operation. It bought Cardo chiefly to get hold of Gambro, a large medical technology company, to establish Incentive in the health care industry.

The remnants of Cardo are to be sold off or refloated. The disposal of Esab leaves Incentive with two main "misfits" - its holdings in Asea, the Swedish co-owner of Asea Brown Boveri, the engineering giant, and Electrolux.

Both Asea and Electrolux are core Wallenberg blue chip holdings - but no longer sit comfortably within an Incentive group concentrating on wholly owned industrial operations.

Meanwhile, Investor, the main vehicle for the Wallenberg blue-chip investment portfolio, holds 100 per cent of Saab Scania, the vehicle and aircraft maker. This has led to much speculation that a larger re-shuffle is likely between Investor and Incentive to rationalise their holdings.

Investor has itself made a number of disposals over the past two years to cope with a heavy debt burden, but is now signalling a return to a more offensive phase, looking for new investments overseas. So far, however, the firm line from Investor is that it has no plans for radical changes in its existing portfolio.

# Financial Times Annual Report Service

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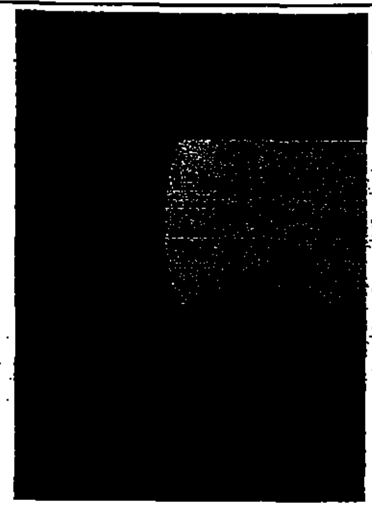

## OTRA N.V.

Listed on the Amsterdam and Paris Stock Exchanges, OTRA N.V., a SONEPAR DISTRIBUTION company, is the marketleader in the field of technical wholesaling in the Netherlands, Germany and Finland, and also *active in the United Kingdom, Scandinavia and the Czech Republic.*

Key Figures:
Consolidated net sales 1993: 3,051 million guilders
Net Result 1993: 75.6 million guilders
Net return on equity: *24.5%*

Thus, *OTRA* continued its European expansion in 1993, despite a difficult environment, maintaining a high level of performance.

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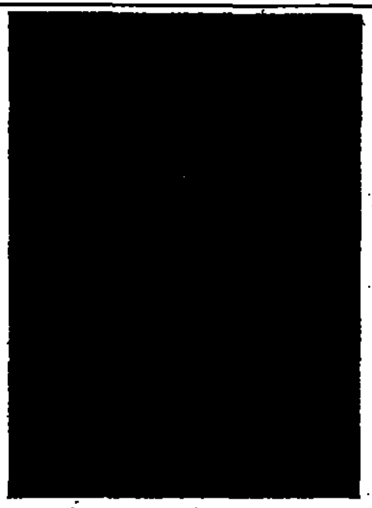

## Groupe Paribas

Established simultaneously in France and The Netherlands in 1872, Groupe Paribas has evolved into one of the world's leading diversified banking groups, active in nearly 60 countries. *Groupe Paribas'* businesses are organized around four autonomous, decentralized units:

- Banque Paribas, an international corporate bank;
- Compagnie Bancaire, a group specializing in financial services
- Crédit du Nord, a French retail bank;
- Paribas Affaires Industrielles, which combines all of the equity investments in industrial and commercial companies.

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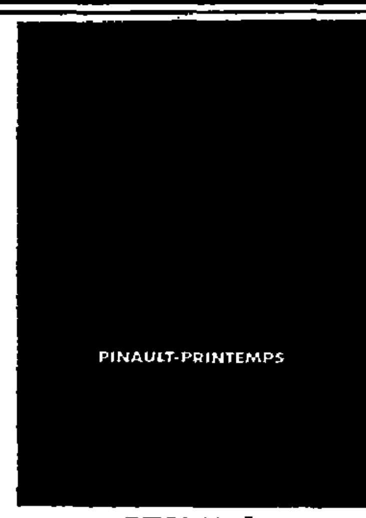


## PINAULT
### PRINTEMPS-REDOUTE

Pinault-Printemps-Redoute is France's top non-food multiple distribution group, with consolidated sales of FF 63.3 billion and a workforce of 50,586. A leader in most of its markets, Pinault - Printemps - Redoute owns some prestigious brands and has four divisions: consumer goods distribution, credit and financial services, specialized distribution and international trade. The Group is a major player in the French market, and is one of the leading groups abroad, where it generates 25% of its sales, mainly in Europe.

Chairman of the Management Board: Pierre Blayau

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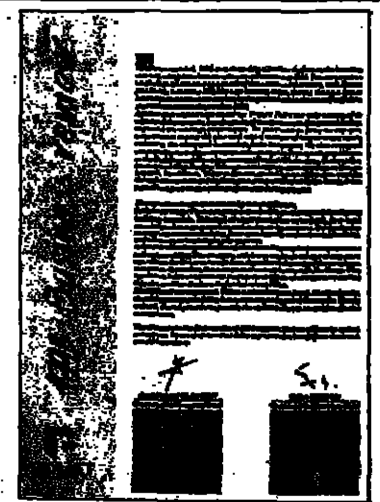

## POLIET

The POLIET Group holds a unique position in the building sector. Concentrating on the building materials area, it is both a large manufacturer and a large distributor.
The Group is organised into six sectors:
• Building and Home Improvement Product Wholesaling • Industrial Joinery • Construction Mortar • Clay Roofing Tiles • Locks and Hardware • Concrete Products.

In 1993, POLIET Group's sales amounted to FRF 19.5 billion.

POLIET
Joint Stock Company with Executive and Supervisory Boards.
President of the Executive Board : Jean-Gérard CLAUDON.

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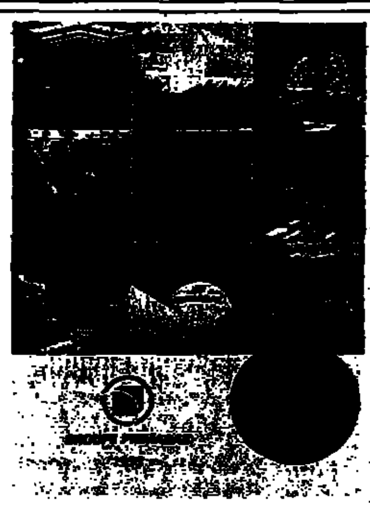

## PRIMAGAZ

Primagaz has been distributing liquefied petroleum gas (LPG) for 60 years. With 16% of the European continental market and a significant presence in Morocco and Turkey, it ranks first among the leading independent groups in this field.

| Group Key Highlights (in million French Francs) | 1993 | 1992 |
|---|---|---|
| Turnover | 5,323 | 5,440 |
| Shareholders' equity, Group share | 2,579 | 2,422 |
| Net income Group share | 252 | 222 |
| Employees | 3,586 | 3,536 |
| LPG volume (in tonnes) | 2,195 | 2,053 |

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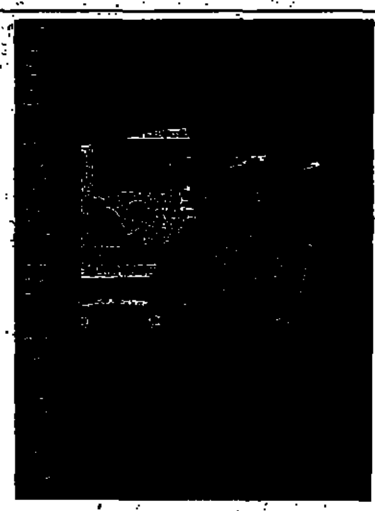

## PSA Peugeot Citroën

With its two car companies, Peugeot and Citroën,
PSA Peugeot Citroën is Europe's third largest carmaker,
with 12.3 percent of the market in 1993.
It has successfully introduced the Citroën Xantia and the Peugeot 306.
Worldwide production totalled 1,751,600 vehicles.
France's leading exporter, with 69 billion French francs in export sales,
PSA Peugeot Citroën reported consolidated sales
of 145.4 billion francs in 1993.

*CHAIRMAN : JACQUES CALVET*

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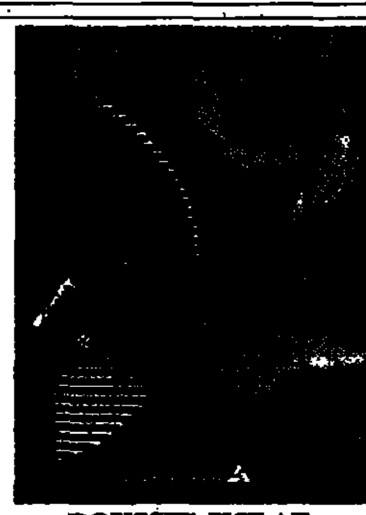

## ROUSSEL UCLAF

Roussel Uclaf had a watershed year in 1993, as it broadened its shareholder base in France and abroad and strategically refocused around its core pharmaceuticals business.
These changes further *enhanced* Roussel *Uclaf's existing competitive* advantages: an R&D commitment focused on four therapeutic areas (antibiotherapy, cardiovascular, endocrinology, and immunology-inflammation), the sustained globalization of its business activities, the skills of its employees and the fruitful relations forged with Hoechst for over 25 years.
Thanks to its strengths, Roussel Uclaf reported solid earnings in 1993 and is looking to the future with confidence, even as the pharmaceuticals market undergoes major upheaval.

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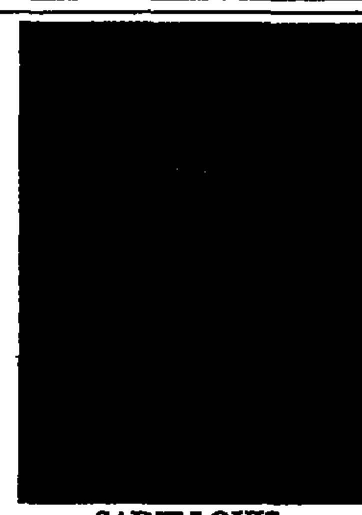

## SAINT LOUIS
### An international industrial group

• A diversified group
The group aims to boost productivity in all its businesses. The group has the determination and the means to pursue an ambitious growth policy.
• Two businesses : agri-foodstuffs and paper
- Through Générale Sucrière, Saint Louis generates a turnover of FRF 6.7 billion and owns 34.5% of Panzalim (turnover FRF 9 billion) - ready meals.
- Through Arjo Wiggins Appleton, one of the world's top ten paper groups, Saint Louis controls a turnover of FRF 23 billion.

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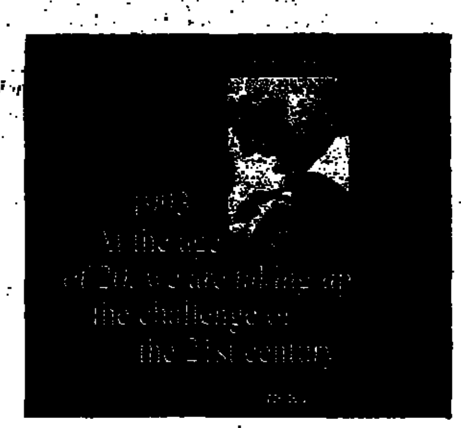

## SANOFI

The year 1993 revealed Sanofi's ability to increase earnings amid a strenuous economic context *and a radically changing operating environment within* the pharmaceutical industry.
This performance is largely attributable to our Human Healthcare division as well as to Yves Saint Laurent and Yves Rocher within our Beauty sector. In the area of Research and Development, major advances have fortified the promising results obtained in recent years.
Key figures in 1993: Global economic presence: FRF 48.4 billion; Consolidated sales: FRF 23.5 billion; Net income*: FRF 1.173 billion.
Chairman and Chief Executive Officer: Jean-François DEHECQ

* excluding non-operating items, net of tax

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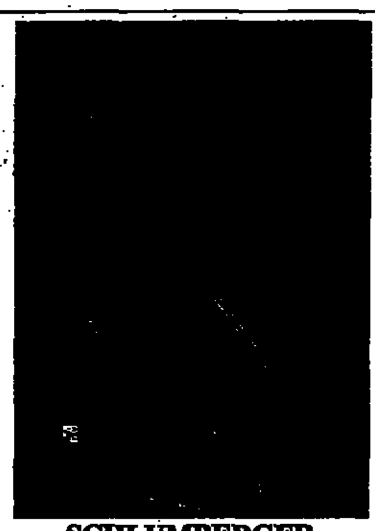

## SCHLUMBERGER

An international company providing products and services in two areas:
• Oilfield Services, offer to oil companies services to enhance their efficiency in all phases of exploration and production of oil and gas reservoirs;
• Measurement & Systems, world leader in manufacturing of water, gas and electricity meters, also provide systems and services for automatic payments and automatic test equipment systems for electronic components.

| 1993 key figures ($ million) | |
|---|---|
| Operating revenue | 6,705 |
| *Income before cumulative effect of a change in accounting principle* | 583 |
| Postretirements benefits | (248) |
| Net income | 335 |

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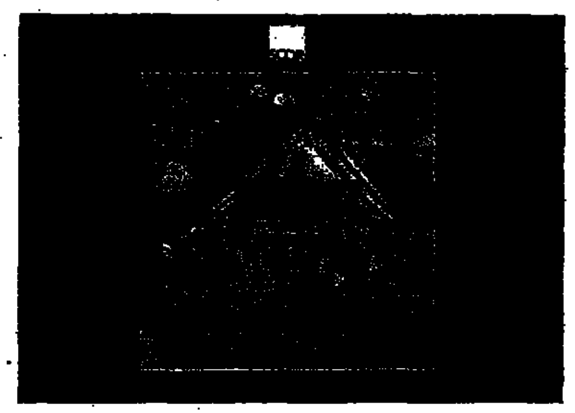

## SCOR
### The Insurer's Insurer

*SCOR S.A., the world's fifth largest reinsurance group in terms of* shareholders' equity, with over five billion French francs, has confirmed itself over the past few years as one of the most active shares in the Insurance compartment of the Paris Bourse.

| 1993 Key Figures | In million FRF | 93/92 |
|---|---|---|
| Corrected gross premiums | 11,646 | +19.6% |
| Net underwriting reserves | 18,225 | +18.0% |
| Net income | *177 (157)** | - |
| Shareholders' equity | 5,419 (4,941)* | +14.06% |

(*) Group share

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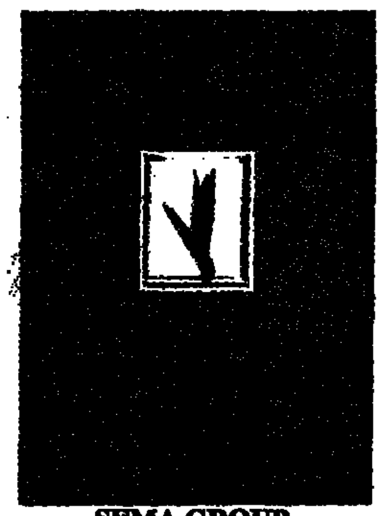

## SEMA GROUP

Sema Group is one of the leading European companies in the field of information technology. In 1993, Sema Group recorded a turnover of *£502* million, an increase of 20% over the previous year. Sema Group has three linked business areas serving the major sectors of economy: systems integration including a very strong element of consultancy, facilities management and outsourcing and software products.
Main References:
Back Office Software System for the Paris Bourse, Command systems for *the Royal Navy type 23 frigates, Total traffic management for the Channel* Tunnel, Electronic Data Interchange Systems for the Malaysian Port of Klang.

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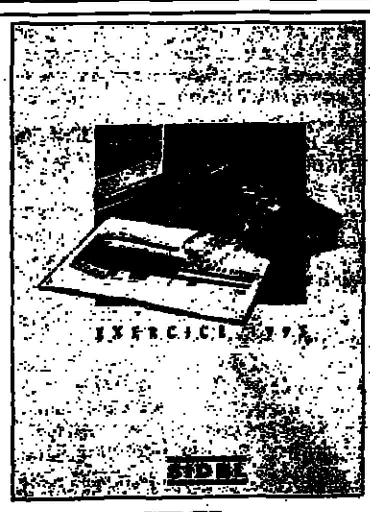


## SIDEL

*In 1993* the *consolidated turnover for the SIDEL* Group stood at FRF 1,808.7 million compared to FRF 1,535.3 million posted in 1992, or an increase of 17.8%. The high rate of expansion is in particular due to the excellent state of P.E.T. business (machines to manufacture bottles made of 100% recyclable plastic), in which SIDEL is world leader 88.3% of consolidated sales were on export markets. The growth was accompanied by excellent net profits of FRF 186.2 million (10.3% of sales), an increase of 20% in relation to those for 1992. *30% of the net profit was paid out, or* a net dividend of FRF 9 per share. Floated at FRF 435 on the Paris Second Market in October 1993, and integrated into the SBF 120 in March 1994, SIDEL stock changed to Forward Market on May 25, 1994 at FRF 840.

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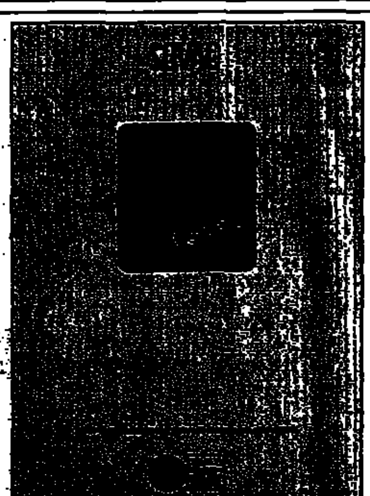

## SOVAC

With over forty subsidiaries, the Sovac Group ranks among France's leading specialised financial services groups, supporting business and individuals with automobile, property, and consumer lending, along with savings and insurance programmes.
FRF 5.7 billion in equity at 31 December 1993, including minority interests for FRF 0.1 billion; FRF 492 million in 1993 consolidated net income, including minority interests for FRF 13 million; FRF 488 million in 1993 consolidated net operating income, including minority interests for FRF 13 million; FRF 50 billion in managed loans; FRF 39 billion in consolidated loans outstanding; 90 branches in France; 2,000 employees.
André Wormser, *Chairman of the Management Board*

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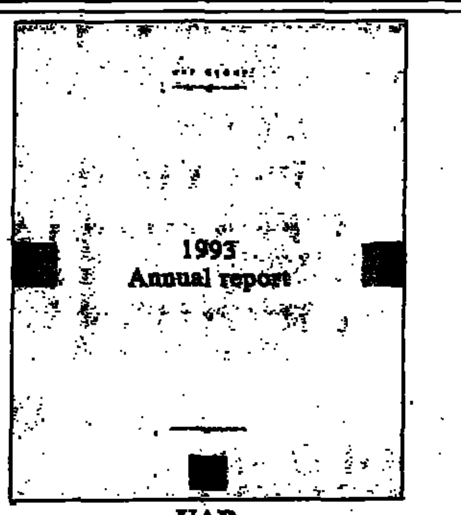


## UAP

As well as being the leading French insurance group, UAP is widely established elsewhere, deriving 68% of its consolidated turnover from outside France (including Vinci's European subsidiaries). Most of this business is in Europe, where UAP ranks as the second largest insurance group.
1993 key figures:
☐ Pro forma consolidated premium income : FRF 162.7 billion of which 46% Life and 54% property and casualty
☐ Assets managed on behalf of clients: more than FRF 650 billion
☐ Consolidated net income: FRF 1,423 millions expanded by 32%
☐ UAP holds 10% of the domestic market
6,5% of the European insurance

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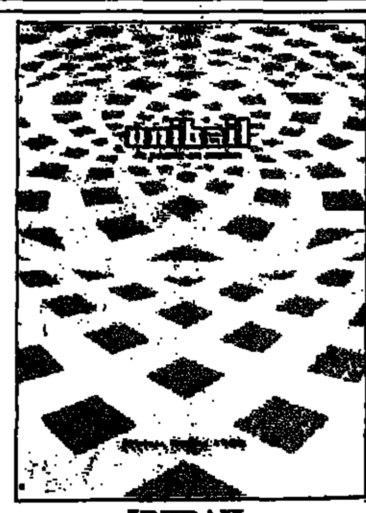


## UNIBAIL

Unibail is a major French property company listed on the Paris Stock Exchange and included in the SBF 120 index. Over the last 25 years, it has developed a prime property portfolio composed of Paris office buildings and shopping centres, valued at FFr 7.6bn at the end of 1993.
In 1994, Unibail took advantage of the favourable market conditions to further its strategy of investing in the shopping centre sector, through the acquisition of the property company Price and the acquisition, from the Suez Group, of most of the property assets of CFI, which is in the process of being finalised.
Unibail offers both domestic and foreign investors a privileged access to some of the finest properties available on the French market.

***The Financial Times Annual Report Service is appearing on 28, 29, 30 June & 1 July 1994***

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67 ☐ Pinault-Printemps-Redoute
68 ☐ Poliet
69 ☐ Primagaz
70 ☐ PSA Peugeot Citroën
71 ☐ Roussel Uclaf
72 ☐ Saint Louis
73 ☐ Sanofi
74 ☐ Schlumberger
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COMPANY NEWS: UK

## Top houses seek ways to differentiate services, says Extel survey

# SG Warburg still top analysts

By Roderick Oram

SG Warburg Securities is the top rated City research house for the fourth year running in the annual Extel survey of research analysts. However, its winning margin was smaller than a year ago.

James Capel, the winner from 1980 to 1990, was the biggest loser, falling back from second to fourth. It was displaced by NatWest Securities, up from third to second, and BZW which rose from fifth to third.

Overall, the top houses are becoming more closely bunched, said Mr Geoffrey Osmint, founder and consulting editor of the survey. This is forcing them to find ways to differentiate their services to institutional investors.

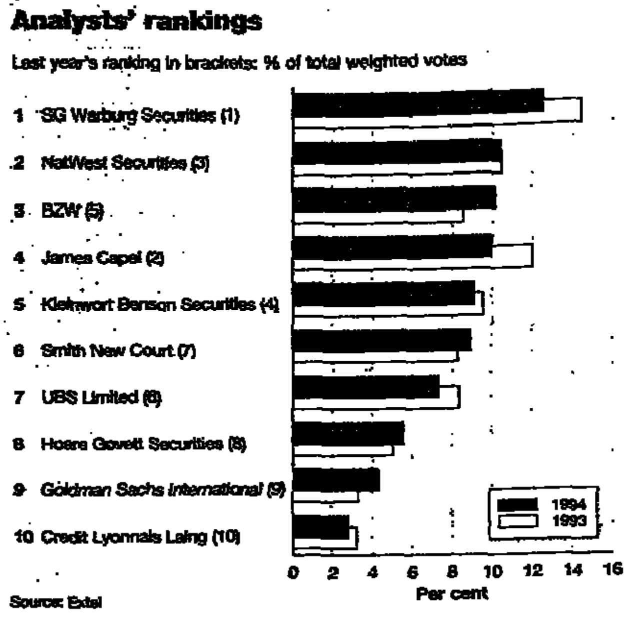
The investors surveyed perceived, for example, that Warburg devoted more of its research than other brokers to corporate finance activities. Smith New Court used much of its analysis for marketmaking while Capel was oriented to its institutional clients.

Investors remained critical of the high volume and sometimes inadequate quality of research landing on their desk, according to the survey of 112 institutions with some £850bn of funds under management.

It was the 21st annual survey and the first since the Financial Times acquired Extel.

**Analysts' rankings**

Last year's ranking in brackets: % of total weighted votes




Source: Extel

Half the investors said they read only a quarter of the material they received and most of the other respondents read less than half.

They were particularly critical of the fundamental analysis of companies' accounts, accounting techniques and financial structure. One third of managers believed that less than a quarter of the research they received provided satisfactory analysis in those areas.

The demand for research was growing, with 56 per cent of large fund managers and 36 per cent of smaller ones expecting to increase their use of information this year. They wanted, for example, more data on emerging markets.

However, a growing number of institutions were turning to in-house research. The trend was strongest among mid-sized managers with £10bn to £20bn of funds. Some 60 per cent of them said they planned to do more research themselves.

There was also a sharp increase in the number of meetings between investors and company managements.

Fund managers were using more derivatives, typically for tactical asset allocation. But in general derivatives were being used by only 25 per cent of the managers surveyed.

In the opinion of institutions surveyed, the best team of analysts was NatWest's integrated oil group led by Mr Fergus MacLeod.

Second was Kleinwort Benson's water team led by Mr Peter Hyde followed by Smith New Court's chemicals team led by Mr Charles Lambert.

Mr MacLeod was also the top rated individual analyst, followed by Mr John Spicer, the breweries analyst at Warburg, and Mr Jamie Stevenson, the construction and building materials analyst at Kleinwort Benson.

The best single piece of research was "A profits pathology" written by Mr Paul Walton and his team at Capel.

Overall, NatWest received the most votes for the content of its research and Capel and NatWest were rated top for presentation.

# Ideal Hardware poised for debut

By Paul Taylor

Ideal Hardware's crowded sales floor in its south London headquarters looks more like a foreign exchange trading room than a computer hardware distribution centre.

In this hot-house atmosphere clusters of salesmen – paid on commission – sit in front of computer screens and cut deals on the telephone with customers for data storage peripherals such as hard disks and optical storage devices.

The company, founded in 1987 by Mr James Wickes, managing director and Mr Konrad Goess-Saurau, chairman, has grown into one of the UK's largest independent distributors of data storage products and is coming to market via a placing which is expected to value the group at between £40m and £50m.

The data storage market is one of the more secure areas of the fast growing computer market. According to Dataquest, the market research concern, the UK data storage market supplied by distributors will be worth more than $400m (£263m) this year, increasing to $700m in 1997. Ideal has between a 10 and 15 per cent share of the domestic market.

Mr Wickes attributes the market growth to the increase in personal computer systems, the wider range and complexity of software products, processing performance gains and the growth of multimedia.

By focusing on the data storage market and emphasising a high level of customer service – including providing its 2,500 customers with a CD-Rom-based interactive sales catalogue – Ideal has managed to build itself a strong market position.

Its supplier list includes Toshiba, IBM, Digital, Compaq, Fujitsu and Conner while customers fall into three main groups – value-added resellers who build systems for large corporate clients, corporate resellers and systems integrators.

Pre-tax profits increased to £4.56m (£1.58m) in the year to April 30 on turnover ahead 58 per cent to £71.8m (£45.5m). Operating profits increased almost threefold, bolstered by an improvement in net margins to almost 6 per cent.

With £9.35m of cash in the balance sheet and no borrowings at the end of April, Ideal has no immediate need to raise substantial additional funds, although the new capital will strengthen a balance sheet which shows net assets of just £3m.

However, the stock market debut will provide Mr Goess-Saurau, who owns a 26.2 per cent stake, with an exit. Ideal's three executive directors will retain more than half the expanded capital after flotation.

The company plans to move to larger premises and expand its current 38-strong sales force substantially.

The placing is sponsored by Charterhouse Tilney Securities. The issue will be priced on July 14.

# Oriel to raise £4m for expansion

Oriel Group, the USM-quoted insurance broker, is raising a net £4m by way of a rights issue to pay for expansion. It is also acquiring David Shapiro and Insurance Administration Consultants for a total of £3m.

It is offering 4.15m shares at 105p on a 2-for-11 basis. Commitments to accept in respect of 7.1 per cent of the offer have been received and the balance has been underwritten. The shares were unchanged at 112p.

The company said that following its acquisition of Warranty Holdings last year, which was partially funded by debt, it was in a period of rapid growth which was being hindered by debt levels.

Of the consideration for the purchases £1.5m will be paid on completion with the balance paid a year later. The total consideration will be satisfied by £2m cash and shares.

Oriel also announced that Mr Richard Hill, recently chairman of Insurance Service, a Royal Insurance subsidiary, is joining the board and becoming chief executive of CGA Direct (Insurance Brokers), an Oriel offshoot.

## NEWS DIGEST

### John Foster cuts losses to £1.7m

On turnover down from £20.5m to £15.9m John Foster & Son, the mohair topmaking, worsted and spinning concern, reduced pre-tax losses to £1.74m for the year to February 28, against £5.1m.

Directors stated that difficult trading conditions had continued into the current year with turnover levels down, but in line with budget. Accordingly, and as last year, it is not proposed to pay a dividend.

Losses per share were reduced to 15.5p, compared with 45.7p. Net borrowings fell by £1.2m to £1.6m.

The directors said the implementation of plans laid 18 months ago for the company's recovery were almost complete, "and although we can at last see light at the end of the tunnel we still expect another difficult year".

### TBI sells factory unit for £4.1m

TBI, the property investment and development company, has sold a 122,000 sq ft factory unit at Bridgend, Mid Glamorgan, for £4.1m cash to Royal Life Insurance.

The asset value of the unit, which produces a rental income of £334,000 a year, was £2.7m at March 1 according to listing particulars.

### Enviromed achieves £126,000

Enviromed, the biotechnology and healthcare group which joined the market last June, achieved a £126,000 pre-tax profit for the six months to March 31.

The result, on sales of £2.85m, compared with a £76,000 deficit previously on sales of £2.11m.

The directors declared an interim dividend of 0.2p, payable from earnings per share of 0.87p (1.73p losses).

### Sharpe & Fisher £2.4m purchases

Sharpe & Fisher, the Cheltenham-based building supplies concern, has purchased Gammon & Smith of Petersfield for £447,000 cash. In a related transaction, also for cash, the company has acquired two freehold and two leasehold properties for £1.95m.

Gammon achieved turnover of £1.7m for the year ended March 31.

### Bolton purchase and cash call

Bolton Group has entered a conditional agreement to acquire United Real Estate, a fellow property investor, for £1.42m via the issue of 9.45m shares.

At the same time, Bolton is calling for £1.2m net by a 1-for-1 underwritten rights issue of 9.16m shares at 15p a time. Bolton shares fell 6p yesterday to 23p.

United Real has interests in six properties – in Watford, Reading, Ulverston, Newport Pagnell, Kendal and Southport. In the nine months to end-December 1993 its share of the gross rental of the portfolio amounted to £104,000. Over the same period, United returned pre-tax profits of £33,000.

Approval for the acquisition and cash call will be sought at an extraordinary meeting convened for July 22. Shareholders will also be asked to approve the adoption of new articles of association and a new executive share option scheme.

Guinness Mahon is underwriting the rights issue.

### Automotive buy for Armour Trust

Armour Trust, the confectionery and automotive accessories supplier, has expanded its automotive business with the acquisition for £625,000 of Nilco.

The purchase is being financed by the issue of 1.25m new Armour shares, which have been placed with The Causeway Smaller Quoted Companies Fund at 50p apiece.

Nilco, which produces industrial cleaning and car care products under its own brand names as well as having a substantial private label business, had sales of some £4m in the last financial year.

### Sharp setback for Falcon Holdings

Falcon Holdings, the valve and pipeline equipment distributor, reported a 41 per cent decline in pre-tax profits during the 12 months to March 31.

On turnover 6 per cent lower at £6.69m, the pre-tax line dropped from £612,000 to £360,000. A recommended final distribution of 2p maintains the total for the year at 5p, covered 2.3 times by earnings per share of 11.4p (15.6p).

### Heavitree ahead 26% to £507,000

Heavitree Brewery reported pre-tax profits of £507,000 for the six months to April 30, a rise of 26 per cent on the comparable £401,000.

The outcome, achieved on turnover of £3.92m (£3.85m), was struck after losses of £64,000 (profit of £26,000) on the sale of properties and lower interest charges of £154,000 (£197,000).

Despite its name, the USM-traded group ceased brewing activities in 1970 to concentrate on operating public houses. Mr William Tucker, chairman, said the "good progress" should continue into the second half "but at a reduced percentage rate."

The interim dividend goes up to 1p (0.6p), payable from earnings of 3.8p (3.2p) per share.

### Feedback declines to £722,000

A disappointing year at two of its subsidiaries resulted in lower profits at Feedback, the USM-quoted designer and maker of electronic, electrical and computer-based equipment.

Sales overall for the year to end-March fell from £9.84m to £9.46m and the pre-tax result was £338,000 down at £722,000. Earnings per share were 5.74p (7.66p).

A final dividend of 1p is recommended, making an unchanged total of 1.5p.

### Metrotect ends year with £2.36m

In its first set of results since floating in June last year Metrotect Industries, the pipeline protection company, reported pre-tax profits of £2.36m on turnover of £21.5m for the 12 months to end-March 1994.

The outcome compared with a profit of £2.28m on turnover of £22.6m. A proposed final dividend of 2.3p makes a total of 3.45p for the year, payable from earnings per share of 7.35p (7.89p).

## BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the sub-divisions shown below are based mainly on last year's timetables.

**TODAY**

**Interims-** Acorn Inc, Brunner Inv Trust, Eurocamp, First National Finance, Gestetner, Gresham Telecomputing, Kleeneze.

**Finals-** Aberdeen Steak Houses, Asda, BPB, Booth, British Bio-technology, Compco, Donelon Tyson, Feltrim, Hadleigh Inds, Ivory & Sime, Joseph (Leopold), Matthew Clark, Platignum, Perth, South Western Electricity.

**FUTURE DATES**

| | |
|---|---|
| **Interims-** | |
| Fyffes | July 4 |
| Gartmore British Inc | July 11 |
| Law Debenture | Aug. 2 |
| Rank Organisation | July 14 |
| Rentokil | Aug. 25 |
| **Finals-** | |
| AIM | July 19 |
| Assoc Nursing Servs | July 5 |
| Barbour Index | July 14 |
| Birse | July 12 |
| Budgens | July 5 |
| European Motor | July 5 |
| Jones Stroud | July 14 |
| Jurys Hotel | July 7 |
| Shield Diagnostics | July 11 |

# Financial Times Annual Report Service

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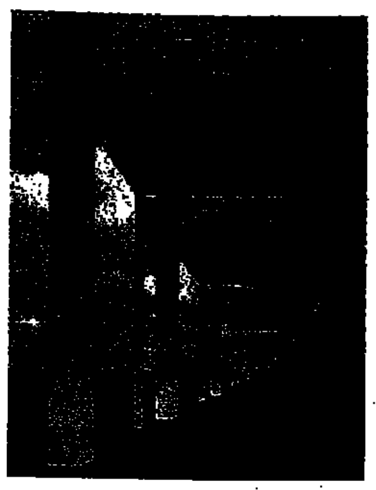

## Euroc

The Swedish-based Euroc Group manufactures mineral-based building materials and distributes construction materials in general.
Earnings in 1993 increased 65 percent to SEK 240 million, despite a further sharp downturn in Euroc's principal markets.
An important step to structure the Nordic construction materials industry was taken during late autumn when Euroc acquired most of the material-based building material operations belonging to Partek and Metra in Finland. Euroc positions in the Baltic states were strengthened.
Earnings in 1994 are expected to be at least as high as in 1993, despite a further decline in the Swedish and Finnish markets. Cash flow is expected to remain substantially positive.

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## Canadian Occidental Petroleum Ltd.

CanadianOxy is a global oil and gas exploration and production company and a leading North American producer and marketer of industrial bleaching chemicals. With diversified oil and gas operations in North America, South America, Europe, the Middle and Far East, CanadianOxy has added more than 270 million barrels of new reserves since 1990. In 1993, production increased by 36% to 92,000 bpd as new projects in Yemen, Ecuador and the North Sea came onstream. Total production is expected to average approximately 150,000 bpd in 1994. The Company is also a low cost producer of sodium chlorate, caustic soda and chlorine with recently expanded and modernized facilities.

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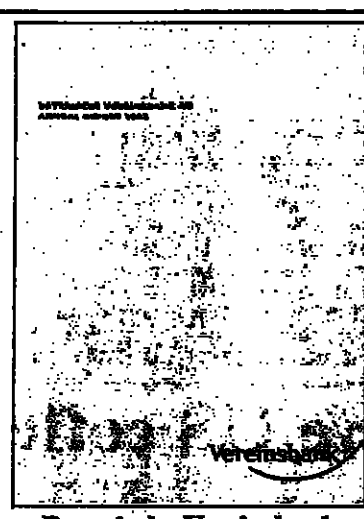


## Bayerische Vereinsbank

For the fourth time in a row, Vereinsbank showed strong earnings growth. In 1993 total operating profit after risk rose by 32% to DM 1.160 mn: primarily due to the continued brisk demand for real estate financings. The good result was achieved despite a further increase of the loan-loss reserves by 19.2%. Bayerische Vereinsbank increased its dividend by DM 1.50 to DM 14.50 per common share and paid a bonus of DM 1.50 per share on the occasion of its 125th anniversary. Vereinsbank, with total assets of DM 289 bn is among Germany's five largest private banks and one of the biggest mortgages banking groups in Europe. Vereinsbank has branches all over Germany and is represented in the major financial and economic centres in Europe, as well as in the US, Japan, Hong Kong, South Africa, South America and the Middle East.

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## THE WHARF (HOLDINGS) LIMITED

The Wharf (Holdings) Limited is an asset-growth driven conglomerate focusing on four core business areas of property, infrastructure, hotels and communications, with operations in Hong Kong, China, Singapore and the United States. For 1993, turnover was £548 million and group profit was £238 million. The Group's investment property portfolio comprises 10 million square feet and will reach 14 million square feet by 1997. Wharf recently became the first Hong Kong-based conglomerate to be assigned a senior rating of 'A' by Standard & Poor's, the same rating as that of the Hong Kong Government.

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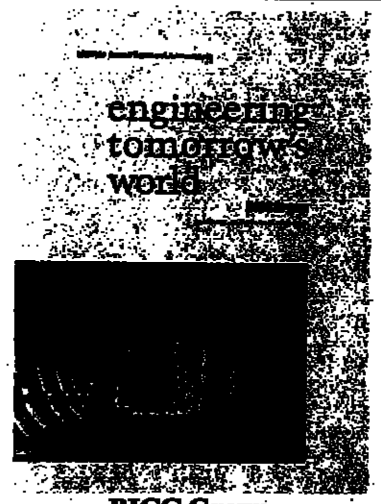


## BICC Group

The BICC Group is an international engineering business which serves the world's markets for infrastructure development in power, communications, transport and building. It has two principal businesses: Balfour Beatty, a leading UK-based construction and engineering company with a significant and growing proportion of its business conducted in North America and the Asia-Pacific Region; and one of the world's largest cable making businesses with substantial positions in all of the world's major regional cable markets. The cables business is managed through regional operations based in Europe, North America, Australia and Asia-Pacific.
The Group is dedicated to total quality, technical excellence and the satisfaction of customer need.

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## CREDIT SUISSE

Credit Suisse, the oldest of the three big Swiss banks, reported a 53% increase in annual profit, from Sfr 955 million in 1992 to Sfr 1,460 million in 1993. In Switzerland, Credit Suisse operates as a a full-service bank with a comprehensive range of banking services for private clients and corporate customers. In partnership with Swiss Volksbank it has the most extensive and most closely-knit branch network in the country, comprising over 330 outlets. Outside Switzerland, the bank has offices worldwide and is primarily involved in large-scale commercial business and private banking services. Credit Suisse is subsidiary of CS Holding, one of the world's leading financial service groups.

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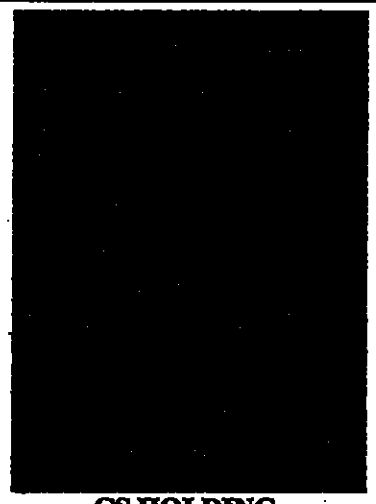

## CS HOLDING

CS Holding is a global financial services group dedicated to providing its clients with greater value. Building on the strengths of the Group companies, we have been able to combine our worldwide capabilities to offer clients a single source for all their major financial transactions. The greater value we provide stems from our collective breadth of experience, range of products and services, asset base and global scope. Most important, it is demonstrated in our absolute commitment to our clients, shareholders and employees.

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## Aker

Aker is one of Norway's largest industrial groups. Its activities encompass cement and building materials and oil and gas technology. Aker holds a strong position domestically in cement and building materials and has a significant international cement business. It is also Norway's leading company in oil and gas technology, with a comprehensive range of services and a growing international presence.
Turnover in 1993 increased to NOK 18,143 million. There was a positive development in Aker's results in 1993. The profit after financial items increased to NOK 851 million.
Aker had approximately 17,000 employees at the end of 1993 of which 4,300 were employed abroad.

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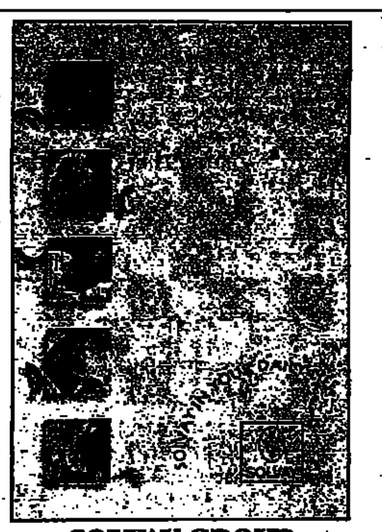

## SOLVAY GROUP

*A PASSION FOR PROGRESS*

Solvay is a worldwide chemical and pharmaceutical Group with consolidated sales of about USD 6.8 billion worldwide. The strategy followed by Solvay is to be a world leader in its five sectors of activity - alkalis, peroxygens, plastics, processing and health, to improve the quality and added value of its products and services through continuous and cost-effective innovation - while also opening new geographical markets for them, mainly in the USA, Asia and Central Europe.

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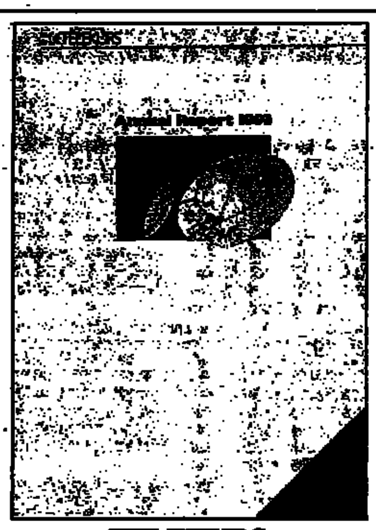

## TELEKURS

TELEKURS, based in Zurich, Switzerland, and with subsidiaries in all major financial centres of the world, offers a broad and varied spectrum of services for financial information distribution at the leading edge of technology. TELEKURS have at their disposal the world's most comprehensive securities database. With its services there is almost instant access to all relevant financial data from anywhere in the world.
The TELEKURS Group expanded its business in 1993; operating income: Sfr. 525.9 million, cash flow Sfr. 74.8 million.

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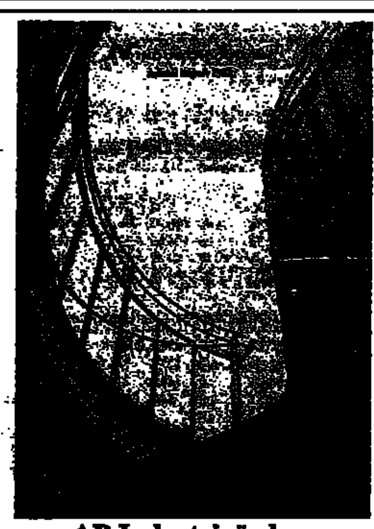

## AB Industrivärden

AB Industrivärden is an industrial holding company which consists of a portfolio of listed stocks worth SEK 10 billion, industrial operations and trading operations with a turnover of SEK 12 billion, and a real estate operation. The holdings in the portfolio of listed stocks are SCA, AGA, Ericsson, Handelsbanken, Skanska and SSAB. PLM is one of Europe's leading packaging companies and concentrates on beverage and food packaging of aluminium, glass and plastic. Indectus consists of seven companies in the engineering industry including Besam and Thorsman. Indutrade is involved in imports and trading with industrial components in Sweden, Denmark, Finland and the Netherlands. Fundament manages real estate consisting of office premises with central locations, mainly in the Stockholm region.

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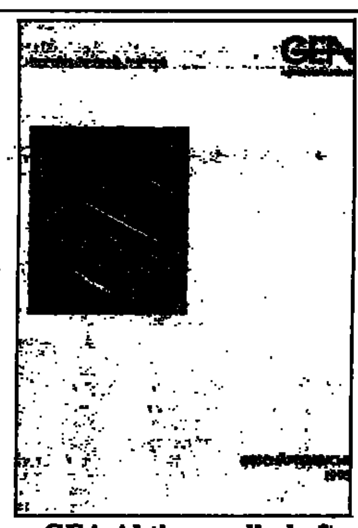

## GEA Aktiengesellschaft

Strength in the Crisis. The Bochum-based GEA Group boosted orders received in the recession year 1993 by 23% from DM 2,152 million to DM 2,657 million. Sales were up by 25% from DM 2,159 million. This growth is attributable to the acquisition of the Danish NIRO Group.
Despite the poor economic situation and the cost of restructuring measures, the net income for the year of DM 74.6 million was down by just barely 9% against 1992 (DM 81.7 million). The operating results rose by 19% from DM 121.2 million to DM 143.8 million.
Thanks to the international cyclical recovery, orders received and sales (excluding acquisitions) are expected to increase by 4% and earnings to show a marked improvement in 1994.

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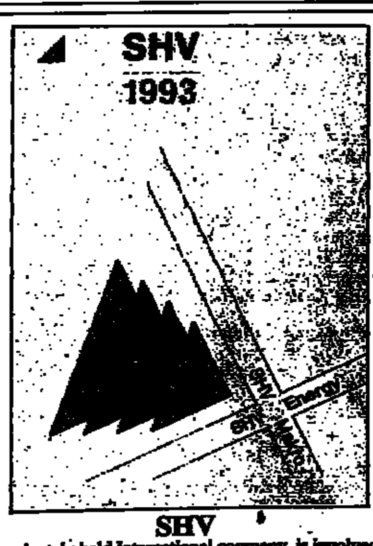


## SHV

SHV, a Dutch privately held International company, is involved in two main business activities:
1st: The distribution of consumer goods under the names Makro, operating worldwide in 14 countries, and Otto Reichelt, a leading supermarket chain in Berlin.
2nd: The trade in energy and raw materials, especially the distribution of liquified petroleum gas (LPG) under the names Calor, Primagaz, Ipragaz, Pam and others.
In 1993 SHV's net sales reached GBP 7.7 billion with an income of the Group of nearly GBP 215 million, employing 54,900 people.

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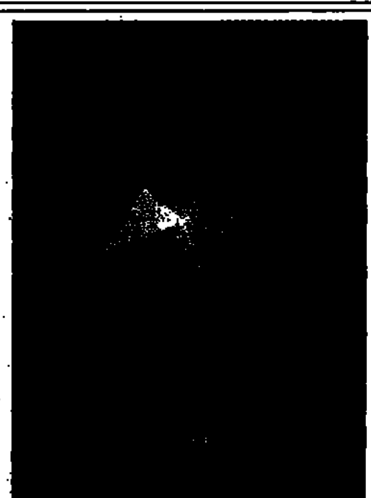

## BARLO GROUP

Barlo Group is a diversified industrial company with expanding operations in Europe. Its six businesses include plastics and radiator production with operations in the United Kingdom, Belgium and Ireland. All European markets are supplied. Recent development through acquisition of IRG (Ireland/UK/Belgium) and Veha NV (Belgium/UK). Major investment in manufacturing technology provides base for future growth. In 1993/94, revenues increased 96% to IR £97.3m and pre-tax profits by 100% to IR £7.8m. Listed in London and Dublin.

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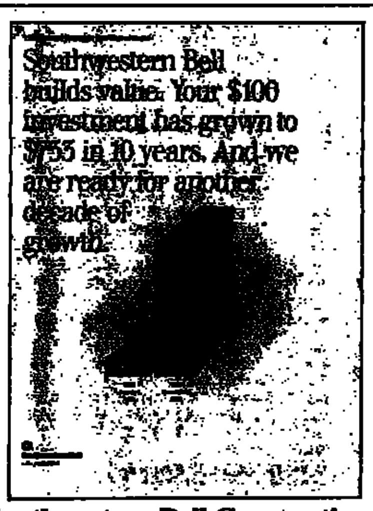

## Southwestern Bell Corporation

Southwestern Bell Corporation (NYSE:SBC) provides telephone, cellular, cable TV and advertising services and products to customers worldwide. SBC also holds an interest in Telmex, the Mexican telephone company. From 1984 to 1993, a $100 investment in SBC stock grew to $733, a total return of 633 percent. Total return includes stock price appreciation plus dividends. Based in San Antonio, Texas, SBC ranks 34th on the 1994 Forbes list of the largest US companies.

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## TELUS Corporation

TELUS Corporation is a Canadian telecommunications and information services company, managing assets of $3.2 billion. Revenues and net income in 1993 were both up at $1.3 billion and $181 million respectively. TELUS holdings include Telecential Communications, which provides joint telephone/cable TV service northwest of London. In Canada, TELUS subsidiaries are leaders in the development and application of fully digital telecommunication networks and services. Other operations include electronic publishing and information systems management services.

***The Financial Times Annual Report Service is appearing on 28, 29, 30 June & 1 July 1994***

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# De Beers expected to keep brake on diamond sales

By Kenneth Gooding, Mining Correspondent

De Beers, the South African group whose London-based Central Selling Organisation accounts for at least 80 per cent of world trade in rough diamonds, gave a clear hint yesterday that it might have given the market indigestion while chalking up record first-half sales of US$2.58bn.

It described the performance – 1.5 per cent higher than in the same months last year – as "encouraging" but said it cut supplies to the market in the second quarter because of "a build-up of stocks in the [diamond] cutting centres and continued concerns in respect of cutting-centre profitability".

"There was good demand for some of the larger sizes but evidence of over-production in certain categories of small stones. So sights [sales] were reined in in the second quarter."

Mr Michael Coulson, analyst at Credit Lyonnais Laing, said: "There is no question that demand for diamonds is recovering. But De Beers has been pushing the market too hard. From all parts of the trade we hear complaints about there being too many diamonds and too many diamonds of the wrong sort. There are not enough stones from which the trade can make a profit."

Like some other analysts, he suggested that De Beers would continue to restrict supplies so that its second half sales would be well below those in the first six months. The 1994 full-year total therefore would be not much different from last year's $4.366bn. De Beers' profits from diamonds would remain low, he added, and its total earnings would consequently "not be that buoyant".

De Beers yesterday acknowledged that its big customers, who cut and polish gem diamonds, were complaining that their profit margins had been squeezed so hard during the past two years that they were now practically non-existent. The CSO is to meet a delegation to discuss these problems.

A spokesman pointed out that the long recession had also been painful for De Beers, which had cut production, made 25 per cent of employees at its diamond mines redundant, cut the dividend to shareholders and was having to finance stocks that had risen to $4bn. The international promotional budget had also been lifted from $150m to more than $170m.

The group increased rough diamond prices by 1.5 per cent in February last year, the first rise since 1990. Producers were also asked to cut deliveries from previously-agreed levels and De Beers made it clear yesterday that deliveries would remain unchanged at 85 per cent.

De Beers said that in the first half demand for retail diamond jewellery remained stable in the US but was weak in Japan, which vies with the States as the biggest diamond retail market. Demand in other east Asian markets was high but it was weak in Europe. There were signs, however, that the economies of both Japan and Europe had "bottomed out".

# Continuing frost fears drive US coffee futures to 8-year highs

By Deborah Hargreaves

New York coffee futures powered to eight-year highs yesterday after the close of the London market as traders continued to react to fears about frost damage to the Brazilian crop. The gains were pared back in late trading but analysts thought the bull run still had farther to go.

"Prices are sky-rocketing," said Ms Judy Ganes, softs analyst at Merrill Lynch in New York, as the September arabica futures contract at the Coffee, Sugar and Cocoa Exchange reached $2 a pound.

In London trading, the market had revived to finish close to its high point of the day. The September futures contract at the London Commodity Exchange rose by $97 a tonne to close at $3,100 a tonne.

Trading in London was cautious and the market lost some of its early gains by midday. But it was pushed higher again by a strong opening to the New York trading day.

Estimates of the damage to Brazil's coffee trees put losses for the 1995-96 crop at between 5m and 9m bags out of a total expected harvest of 24m bags – a quarter of world output. "That's a pretty hefty sum," said Ms Ganes.

She said that few roasting companies were willing to part with beans, which was forcing many speculators to scramble to cover short positions. Traders fear a shortfall in coffee output while consumption continues to rise.

Ms Ganes believes that New York prices could easily go up by another 50 cents a pound as a result of the recent damage, with nearby London futures reaching $3,600 to $3,700 a tonne.

Latin American producers meet in Brasilia next week, where they could discuss releasing stocks to help alleviate the market tightness. But producer-held stocks are at their lowest level for 14 years, according to trading house E.D. & F. Man, with 65 per cent of them in the hands of Brazil and Colombia.

# Peanut power could beef up South American forage

## John Madeley on a wild legume that offers a wide range of benefits to farmers on the savannas

A wild peanut, used in parts of parts of South America as a forage for animals, could play a key role in raising the productivity of pasture land, and also help to protect the continent's disappearing forests.

Scientists at the Colombia-based Cali International Centre for Tropical Agriculture, a major research station, say that when the wild peanut is planted with improved grasses on acidic savanna land, it sharply increases the productivity of the land.

Indigenous to Brazil, the wild peanut is called Arachis Pintoi, and looks like a clover with yellow flowers. It has edible pods similar to the common peanut. Scientists describe it as a perennial legume, or forage peanut legume, which is unusually versatile.

"It's a vigorous pioneer," says Mr Myles Fisher, a Ciat scientist, ". . . it tolerates infertile, acid soils, produces lots of seeds and withstands heavy grazing."

The grazing quality of this peanut legume is now attracting the interest of farmers on the vast savanna lands of South America, which cover over 200m hectares, equivalent to the area under crops in sub-Saharan Africa.

In Columbia's Eastern Plains, seeds of the legume were given to a number of farmers in late 1992. Results were dramatic. Cows grazed on a land where the legume was growing with improved grasses gained more than 400kg in a year, compared with only 30kg on native grasses. Milk production was also higher when the legume was planted.

"This grass-legume pasture is more productive than any other combination we have tried", says Mr Carlos Lascano, a ruminant nutritionist at Ciat.

Peanut legumes help to improve the soil's fertility by recycling large amounts of nutrients between plants and soil, "which, in turn maintains productive pastures", says Mr Gerard Ketter-Grein, a tropical pastures agronomist.

Cattle like the taste of an improved grass-legume and eat more of it than a grass-only pasture.

Savanna farmers producing beef and milk and having good access to markets are expected to gain most from planting the peanut legume. Scientists believe that it could help to rejuvenate lost agricultural land, bringing it back into production, and take the pressure off beleaguered forests.

Farmers with unproductive savanna lands that provide only a meagre income often move into forest areas to chop down trees and give themselves more land for pasture. More productive savannas could help to stop this.

"If we can stabilise pastures at a high level of productivity", says Mr Peter Jones, an agricultural geographer at Ciat. "There will be no incentive for people to cut more forest. And let's face it, cutting a few hectares of Amazon forest is no fun".

Tempted by the prospect of more productive pastures, however, some farmers may still resort to chopping down more forest to increase their land holdings.

While legislation protecting forests exists in in most South American countries it is often not enforced. Mr Jones believes that if the economy of the savannas is improved, "there would be a better chance of enforcement".

The peanut legume has other qualities that farmers find attractive. It absorbs nitrogen from the air and this acts as a free fertiliser, says soil specialist Mr Richard Thomas. He estimates that it effectively provides between 40kg and 80kg of nitrogen a hectare a year.

By using the legume, savanna farmers are therefore able to further improve their profitability by reducing purchases of nitrogen fertiliser.

By spreading on grassland like a clover, the legume helps to control weeds. And it is "a highly nutritious forage for animals", says Mr Peter Kerridge, leader of Ciat's tropical forages programme.

Farmers could face problems, however, getting hold of the seeds. Mr John Ferguson, an agronomist, points out that although *arachis pintoi* has been used in Australia for over 10 years, under the name Amarillo, there is little seed production in Colombia. A small Bolivian company, SEFO, is exporting seeds of the legume to other South American countries.

The peanut legume is now being used by coffee farmers, not least because it substitutes for nitrogen fertiliser, which has to be purchased. "In coffee plantations on the Colombian hillsides, *arachis pintoi* cuts fertiliser costs and improves weed control", says Mr Senen Suarez of Cenicafe, Colombia's Coffee Research Centre.

# Cornish tin miner seeks £1m life-line

By Kenneth Gooding

An emotional appeal to investors to provide at least £1m and up to £1.8m to save the last operating tin mine in Cornwall – where tin mining has taken place for more than 2,500 years – was made yesterday by Mr Kevin Ross, managing director of South Crofty, until recently known as Carnon Consolidated.

"Since the collapse of the tin price in 1985, most of the world's producers have faced enormous difficulties and many have closed. But South Crofty has survived through tenacity, dedication and ingenuity. On many occasions commentators have predicted that closure of the mine was imminent – but we are still here and, with your help, we intend to stay here," he says in a letter accompanying the prospectus carrying details of an offer of South Crofty shares.

This reveals that, if South Crofty can raise the minimum £1m to ensure its survival for another 18 months, the UK government is willing to waive loans to South Crofty made since 1985 totalling £23.3m. The European Commission, which approved the loans, has agreed they can now be written off, "in view of the favourable market situation forecast by market studies".

RTZ, the world's biggest mining company, which sold South Crofty and its sister mine Wheal Jane, to management and employees in 1985, will also forgive its loan of £7.7m. RTZ wrote off this loan in 1986.

Mr Ross is appealing for support particularly from the people of Cornwall and those in the mining industry who have had connections with South Crofty and Wheal Jane, asking for minimum individual offers for £200-worth of shares. He points out that investment in the company is far from a "safe bet" in financial terms.

South Crofty needs a tin price of about £4,000 a tonne to make a decent profit. The price peaked at £10,021 in February 1985 and fell to a 20-year low of £2,946 in September 1993. At present the price is about £3,600 a tonne.

The prospectus makes no forecasts but shows South Crofty reported a pre-tax loss of £42,000 on turnover of £6.5m for last year, compared with a profit of £79,000 on £6m of sales in 1992.

South Crofty employs 260 people and has about three years of demonstrated reserves and at least ten years of identified reserves. Annual output has been about 2,200 tonnes of tin in concentrate, or roughly 1 per cent of world production outside for former eastern bloc countries. Ore is trucked from the South Crofty mine 12 miles to the Wheal Jane mill – "one of the world's most efficient tin concentrators" – for processing. All concentrate is shipped for refining to the DKS smelter in Malaysia.

Mr Ross, in his letter, says: "The success of this share issue is vital to maintain Cornwall's last operating tin mine. I am therefore appealing to the hearts and minds of the people in Cornwall and elsewhere to make this issue a success. South Crofty has the natural and human resources, skills and vision to sustain a traditional industry for future generations. With your help we will turn this vision into a reality."

● Annual demand for tin could rise by over 20 per cent in five years as new products come on to the market, according to Mr Bres Barry, director of the International Tin Research Institute, reports Reuter.

He said products pioneered by the ITRI could add 35,000 to 40,000 tonnes to annual consumption. Projects under way included a new tin-zinc alloy for plating car components and several big companies were interested.

*Copies of the South Crofty prospectus are available from Mr Howard Midwinter, South Crofty Plc – Share Issue, South Crofty Mine, Pool, Redruth, Cornwall TR15 3QH.*

## COMMODITIES PRICES

### BASE METALS

**LONDON METAL EXCHANGE**

(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

| | Cash | 3 mths |
|---|---|---|
| Close | 1460-1 | 1478.5-9.0 |
| Previous | 1429-30 | 1457-8 |
| High/low | | 1480/1449 |
| AM Official | 1434-5 | 1463-3.5 |
| Kerb close | | 1479-80 |
| Open int. | 274,444 | |
| Total daily turnover | 56,355 | |

■ ALUMINIUM ALLOY ($ per tonne)

| | | |
|---|---|---|
| Close | 1445-55 | 1465-75 |
| Previous | 1440-50 | 1460-5 |
| High/low | | 1475/1460 |
| AM Official | 1445-9 | 1465-7 |
| Kerb close | | 1467-70 |
| Open int. | 2,892 | |
| Total daily turnover | 549 | |

■ LEAD ($ per tonne)

| | | |
|---|---|---|
| Close | 524-5 | 542-3 |
| Previous | 517-9 | 535-7 |
| High/low | | 542/538 |
| AM Official | 520-1 | 538-8.5 |
| Kerb close | | 541-2 |
| Open int. | 39,999 | |
| Total daily turnover | 8,793 | |

■ NICKEL ($ per tonne)

| | | |
|---|---|---|
| Close | 6100-10 | 6200-05 |
| Previous | 5945-55 | 6040-50 |
| High/low | 6030/6020 | 6235/6050 |
| AM Official | 6030-1 | 6125-35 |
| Kerb close | | 6180-90 |
| Open int. | 57,506 | |
| Total daily turnover | 12,944 | |

■ TIN ($ per tonne)

| | | |
|---|---|---|
| Close | 5140-50 | 5220-25 |
| Previous | 5125-35 | 5210-15 |
| High/low | | 5250/5115 |
| AM Official | 5080-90 | 5160-5 |
| Kerb close | | 5180-85 |
| Open int. | 17,974 | |
| Total daily turnover | 6,609 | |

■ ZINC, special high grade ($ per tonne)

| | | |
|---|---|---|
| Close | 939-40 | 984-5 |
| Previous | 938-9 | 983-4 |
| High/low | | 988/960 |
| AM Official | 934.5-5.5 | 960-60.5 |
| Kerb close | | 984-5 |
| Open int. | 107,967 | |
| Total daily turnover | 29,362 | |

■ COPPER, grade A ($ per tonne)

| | | |
|---|---|---|
| Close | 2355.5-6.5 | 2376-7 |
| Previous | 2360-1 | 2380-1 |
| High/low | 2348/2345 | 2378/2350 |
| AM Official | 2346-7 | 2365.5-6.0 |
| Kerb close | | 2374-5 |
| Open int. | 228,650 | |
| Total daily turnover | 85,608 | |

■ LME AM Official £/$ rate: 1.5518
LME Closing £/$ rate: 1.5470

Spot:1.5465 3 mths:1.5451 6 mths:1.5447 9 mths:1.5438

■ HIGH GRADE COPPER (COMEX)

| | Close | Day's change | High | low | Open Int | Vol |
|---|---|---|---|---|---|---|
| Jun | 108.20 | -3.90 | 107.50 | 108.00 | 8,288 | 5,464 |
| Jul | 108.00 | +0.15 | 108.90 | 105.30 | 703 | 3 |
| Aug | 108.60 | +0.25 | 108.80 | 108.20 | 34,889 | 1,869 |
| Sep | 107.10 | +0.30 | 108.00 | 106.20 | 296 | - |
| Oct | 108.75 | +0.30 | 107.15 | 107.15 | 243 | - |
| Nov | 106.40 | +0.30 | 106.80 | 106.80 | 7,878 | 596 |
| Total | | | | | 57,942 | 19,883 |

### PRECIOUS METALS

■ LONDON BULLION MARKET
(Prices supplied by N M Rothschild)

| Gold (Troy oz.) | $ price | £ equiv. |
|---|---|---|
| Close | 385.10-385.50 | |
| Opening | 386.50-386.90 | |
| Morning fix | 385.80 | 248.023 |
| Afternoon fix | 385.50 | 248.999 |
| Day's High | 386.70-387.10 | |
| Day's Low | 384.60-385.00 | |
| Previous close | 386.50-386.90 | |

Loco Ldn Mean Gold Lending Rates (Vs US$)

| | | | |
|---|---|---|---|
| 1 month | 4.09 | 6 months | 4.61 |
| 2 months | 4.19 | 12 months | 5.07 |
| 3 months | 4.28 | | |

| Silver Fix | p/troy oz. | US cts equiv. |
|---|---|---|
| Spot | 340.00 | 527.00 |
| 3 months | 344.25 | 533.20 |
| 6 months | 348.50 | 538.55 |
| 1 year | 359.50 | 555.45 |

| Gold Coins | $ price | £ equiv. |
|---|---|---|
| Krugerrand | 391-394 | 252-255 |
| Maple Leaf | 396.25-398.75 | - |
| New Sovereign | 91-94 | 59-62 |

### Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

| | Sett price | Day's change | High | Low | Open int | Vol. |
|---|---|---|---|---|---|---|
| Jul | 384.8 | -1.4 | - | - | 107 | 178 |
| Aug | 386.3 | -1.6 | 387.8 | 385.2 | - | - |
| Oct | 389.3 | -1.6 | 390.3 | 388.4 | 74,468 | 27,724 |
| Dec | 392.5 | -1.6 | 393.5 | 391.4 | 5,921 | 1,079 |
| Feb | 396.1 | -1.6 | - | - | 25,822 | 1,283 |
| Apr | 399.7 | -1.6 | - | - | 7,596 | 31 |
| Total | | | | | 148,661 | 39,377 |

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

| | | | | | | |
|---|---|---|---|---|---|---|
| Jul | 399.6 | +1.0 | 399.5 | 397.0 | 3,288 | 1,019 |
| Oct | 403.6 | +1.1 | 403.9 | 401.0 | 16,304 | 3,077 |
| Jan | 407.1 | +1.6 | 408.5 | 408.0 | 1,432 | 85 |
| Apr | 410.1 | +1.6 | 409.0 | 409.0 | 1,325 | 126 |
| Total | | | | | 22,329 | 4,307 |

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

| | | | | | | |
|---|---|---|---|---|---|---|
| Jun | 138.15 | +0.15 | 138.10 | 139.10 | - | - |
| Sep | 140.00 | +0.85 | - | - | 3,698 | 228 |
| Dec | 140.25 | +0.85 | 140.00 | 139.50 | 8,898 | 108 |
| Mar | 140.25 | +0.65 | - | - | 1 | - |
| Total | | | | | 4,588 | 332 |

■ SILVER COMEX (100 Troy oz.; Cents/troy oz.)

| | | | | | | |
|---|---|---|---|---|---|---|
| Jul | 525.1 | -4.2 | 530.0 | 521.5 | 3 | 4 |
| Aug | 526.0 | -4.0 | - | - | 14,432 | 24,791 |
| Sep | 529.8 | -4.0 | 535.0 | 526.5 | - | - |
| Dec | 537.1 | -4.0 | 543.0 | 534.0 | 73,269 | 23,929 |
| Jan | 538.8 | -4.0 | - | - | 20,893 | 3,563 |
| Mar | 545.2 | -4.0 | 549.0 | 546.0 | 32 | - |
| Total | | | | | 128,677 | 82,783 |

### ENERGY

■ CRUDE OIL NYMEX (42,000 US galls. $/barrel)

| | Latest price | Day's change | High | Low | Open int | Vol |
|---|---|---|---|---|---|---|
| Aug | 19.29 | +0.02 | 19.33 | 19.07 | 96,856 | 57,286 |
| Sep | 18.80 | +0.04 | 18.82 | 18.60 | 64,295 | 23,444 |
| Oct | 18.55 | +0.02 | 18.55 | 18.36 | 33,586 | 9,114 |
| Nov | 18.34 | -0.04 | 18.38 | 18.22 | 29,581 | 4,273 |
| Dec | 18.26 | -0.02 | 18.28 | 18.14 | 33,060 | 3,622 |
| Jan | 18.14 | -0.07 | 18.14 | 18.06 | 16,919 | 813 |
| Total | | | | | 403,484 | 108,465 |

■ CRUDE OIL IPE ($/barrel)

| | Latest price | Day's change | High | Low | Open int | Vol |
|---|---|---|---|---|---|---|
| Aug | 17.32 | +0.01 | 17.45 | 17.19 | 68,041 | 19,534 |
| Sep | 17.14 | +0.05 | 17.25 | 17.00 | 33,940 | 7,801 |
| Oct | 17.14 | +0.14 | 17.14 | 16.92 | 10,358 | 1,280 |
| Nov | 17.02 | +0.07 | 17.04 | 16.85 | 6,198 | 72 |
| Dec | 16.94 | +0.04 | 16.98 | 16.82 | 10,942 | 347 |
| Jan | - | - | - | - | 2,870 | 150 |
| Total | | | | | 137,164 | 28,814 |

■ HEATING OIL NYMEX (42,000 US galls.; c/US galls.)

| | Latest price | Day's change | High | Low | Open int | Vol |
|---|---|---|---|---|---|---|
| Jul | 50.55 | +0.60 | 50.70 | 49.65 | 14,088 | 9,513 |
| Aug | 50.70 | +0.47 | 50.75 | 49.80 | 35,210 | 12,362 |
| Sep | 51.30 | +0.32 | 51.50 | 50.60 | 15,153 | 3,516 |
| Oct | 52.20 | +0.32 | 52.20 | 51.80 | 11,762 | 1,294 |
| Nov | 52.95 | +0.17 | 52.95 | 52.45 | 7,434 | 584 |
| Dec | 53.90 | +0.27 | 53.90 | 53.30 | 15,984 | 1,158 |
| Total | | | | | 132,092 | 29,744 |

■ GAS OIL IPE ($/tonne)

| | Sett price | Day's change | High | Low | Open int | Vol |
|---|---|---|---|---|---|---|
| Jul | 154.50 | +2.00 | 155.50 | 153.25 | 27,483 | 4,713 |
| Aug | 158.75 | +1.75 | 157.75 | 155.50 | 17,983 | 4,853 |
| Sep | 158.75 | +1.75 | 158.50 | 157.50 | 8,825 | 1,148 |
| Oct | 161.75 | +2.00 | 161.25 | 160.50 | 7,867 | 226 |
| Nov | 163.25 | +1.75 | 163.75 | 162.25 | 5,870 | 398 |
| Dec | 165.00 | +2.00 | 165.50 | 163.75 | 14,528 | 910 |
| Total | | | | | 92,794 | 12,146 |

■ NATURAL GAS NYMEX (10,000 mmBtu; $/mmBtu)

| | Latest price | Day's change | High | Low | Open int | Vol |
|---|---|---|---|---|---|---|
| Aug | 2.170 | -0.030 | 2.190 | 2.150 | 18,924 | 20,027 |
| Sep | 2.175 | -0.015 | 2.185 | 2.160 | 12,387 | 4,627 |
| Oct | 2.180 | -0.013 | 2.185 | 2.170 | 11,438 | 1,868 |
| Nov | 2.250 | -0.008 | 2.260 | 2.240 | 11,455 | 1,423 |
| Dec | 2.340 | -0.008 | 2.345 | 2.340 | 14,978 | 1,226 |
| Jan | 2.342 | -0.008 | 2.342 | 2.340 | 10,587 | 704 |
| Total | | | | | 115,580 | 31,611 |

■ UNLEADED GASOLINE
NYMEX (42,000 US galls.; c/US galls.)

| | Latest price | Day's change | High | Low | Open int | Vol |
|---|---|---|---|---|---|---|
| Jul | 53.35 | -0.80 | 53.90 | 53.10 | 18,418 | 14,512 |
| Aug | 53.75 | -0.67 | 54.40 | 53.45 | 41,212 | 16,787 |
| Sep | 53.66 | -0.24 | 53.90 | 53.50 | 14,287 | 3,550 |
| Oct | 52.45 | -0.34 | 52.45 | 52.05 | 6,679 | 1,617 |
| Nov | 50.95 | -0.39 | 51.00 | 50.95 | 5,387 | 844 |
| Dec | 55.50 | -0.28 | 55.50 | 55.25 | 3,187 | 94 |
| Total | | | | | 88,316 | 37,468 |

### GRAINS AND OIL SEEDS

■ WHEAT LCE (£ per tonne)

| | Sett price | Day's change | High | Low | Open int | Vol |
|---|---|---|---|---|---|---|
| Sep | 101.60 | - | 101.60 | 101.40 | 455 | 5 |
| Nov | 102.25 | -0.05 | 102.25 | 101.90 | 2,200 | 160 |
| Jan | 104.10 | -0.10 | 104.10 | 103.90 | 1,443 | 85 |
| Mar | 105.40 | -0.25 | 105.45 | 105.30 | 455 | 40 |
| May | 107.25 | -0.20 | 107.15 | 107.00 | 394 | 13 |
| Total | | | | | 4,947 | 388 |

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

| | | | | | | |
|---|---|---|---|---|---|---|
| Jul | 315/4 | -3/6 | 316/4 | 315/0 | 34,440 | 17,790 |
| Sep | 324/4 | -4/2 | 327/2 | 323/4 | 80,050 | 29,245 |
| Dec | 338/2 | -3/6 | 339/2 | 335/2 | 122,050 | 41,465 |
| Mar | 340/4 | -4/0 | 342/6 | 339/0 | 22,795 | 3,490 |
| May | 334/0 | -2/0 | - | - | 455 | 45 |
| Jul | 323/0 | -1/0 | 324/2 | 319/0 | 2,030 | 195 |
| Total | | | | | 261,838 | 92,299 |

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

| | | | | | | |
|---|---|---|---|---|---|---|
| Jul | 248/2 | -11/6 | 253/0 | 246/0 | 198,020 | 121,875 |
| Sep | 243/0 | -10/6 | 249/0 | 242/4 | 257,075 | 77,970 |
| Dec | 239/6 | -9/6 | 244/4 | 239/0 | 588,580 | 213,020 |
| Mar | 247/2 | -8/4 | 251/4 | 246/6 | 74,695 | 7,680 |
| May | 252/2 | -9/4 | 257/0 | 252/0 | 13,655 | 1,880 |
| Jul | 254/6 | -9/2 | 258/6 | 254/0 | 19,200 | 6,160 |
| Total | | | | | [illegible] | 438,745 |

■ BARLEY LCE (£ per tonne)

| | | | | | | |
|---|---|---|---|---|---|---|
| Sep | 99.70 | - | - | - | 200 | - |
| Nov | 100.75 | +0.05 | - | - | 384 | - |
| Jan | 101.75 | -0.40 | - | - | 28 | - |
| Mar | 103.00 | - | - | - | 35 | - |
| May | 104.80 | - | - | - | 1 | - |
| Total | | | | | 828 | - |

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

| | | | | | | |
|---|---|---|---|---|---|---|
| Jul | 660/0 | -21/0 | 672/0 | 659/4 | 90,520 | 40,310 |
| Aug | 657/6 | -21/0 | 669/0 | 657/0 | 128,100 | 50,330 |
| Sep | 649/6 | -20/4 | 659/0 | 645/0 | 52,665 | 9,196 |
| Nov | 635/0 | -21/4 | 645/0 | 633/0 | 372,325 | 186,675 |
| Jan | 640/4 | -23/0 | 650/4 | 640/0 | 32,610 | 5,105 |
| Mar | 646/0 | -21/0 | 655/4 | 646/0 | 14,535 | 1,935 |
| Total | | | | | 723,089 | 311,345 |

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

| | | | | | | |
|---|---|---|---|---|---|---|
| Jul | 26.54 | -0.58 | 26.90 | 26.53 | 9,093 | 4,063 |
| Aug | 26.64 | -0.43 | 26.90 | 26.59 | 16,346 | 5,145 |
| Sep | 26.65 | -0.40 | 26.88 | 26.58 | 13,347 | 2,657 |
| Oct | 26.43 | -0.42 | 26.68 | 26.40 | 8,903 | 198 |
| Dec | 26.27 | -0.38 | 26.50 | 26.16 | 24,787 | 6,090 |
| Jan | 26.22 | -0.36 | 26.40 | 26.20 | 2,881 | 133 |
| Total | | | | | 79,783 | 18,837 |

■ SOYABEAN MEAL CBT (100 tons; $/ton)

| | | | | | | |
|---|---|---|---|---|---|---|
| Jul | 193.3 | -4.3 | 195.0 | 191.7 | 11,731 | 8,421 |
| Aug | 193.4 | -5.0 | 195.2 | 192.3 | 19,954 | 8,195 |
| Sep | 192.4 | -5.2 | 194.5 | 191.5 | 14,803 | 2,597 |
| Oct | 189.9 | -5.8 | 193.0 | 188.5 | 6,758 | 779 |
| Dec | 189.2 | -6.3 | 192.0 | 188.3 | 19,101 | 8,008 |
| Jan | 189.6 | -6.9 | 191.6 | 189.0 | 1,711 | 193 |
| Total | | | | | 77,427 | 28,166 |

■ POTATOES LCE (£/tonne)

| | | | | | | |
|---|---|---|---|---|---|---|
| Nov | 90.0 | - | - | - | - | - |
| Mar | 108.0 | - | - | - | - | - |
| Apr | 173.5 | +13.0 | 174.5 | 165.0 | 660 | 282 |
| May | 181.5 | - | - | - | - | - |
| Jun | 107.5 | - | - | - | - | - |
| Total | | | | | 869 | 282 |

■ FREIGHT (BIFFEX) LCE ($10/index point)

| | | | | | | |
|---|---|---|---|---|---|---|
| Jun | 1324 | - | - | - | 418 | - |
| Jul | 1273 | +4 | 1275 | 1260 | 813 | 31 |
| Aug | 1258 | +3 | 1260 | 1250 | 452 | 14 |
| Oct | 1342 | +4 | - | - | 486 | - |
| Jan | 1363 | +3 | - | - | 235 | - |
| Apr | 1383 | +5 | - | - | 109 | - |
| Total | | | | | 2,573 | 45 |

| | Close | Prev |
|---|---|---|
| BFI | 1327 | 1325 |

**Cotton**
Liverpool- Spot and shipment sales amounted to 50 tonnes for the week ended 24 June, against 9 tonnes in the previous week. Restricted operations involved few fresh dealings. Only occasional interest displayed in American styles.

### SOFTS

■ COCOA LCE (£/tonne)

| | Sett price | Day's change | High | Low | Open int | Vol |
|---|---|---|---|---|---|---|
| Jul | 933 | +2 | 937 | 930 | 8,612 | 554 |
| Sep | 953 | +2 | 959 | 948 | 19,872 | 2,273 |
| Dec | 969 | -1 | 976 | 964 | 25,986 | 1,469 |
| Mar | 993 | +3 | 995 | 986 | 27,950 | 964 |
| May | 1004 | +2 | 1008 | 1000 | 11,167 | 132 |
| Jul | 1016 | +2 | 1017 | 1011 | 3,463 | 106 |
| Total | | | | | 108,718 | 5,642 |

■ COCOA CSCE (10 tonnes; $/tonnes)

| | | | | | | |
|---|---|---|---|---|---|---|
| Jul | 1250 | +2 | 1250 | 1243 | 291 | 19 |
| Sep | 1277 | -2 | 1294 | 1267 | 34,726 | 4,165 |
| Dec | 1319 | -1 | 1335 | 1310 | 12,731 | 1,139 |
| Mar | 1357 | -3 | 1369 | 1350 | 7,716 | 190 |
| May | 1381 | -3 | 1390 | 1388 | 3,194 | 222 |
| Jul | 1403 | -3 | 1408 | 1408 | 2,297 | 2 |
| Total | | | | | 65,896 | 5,789 |

■ COCOA (ICCO) (SDR's/tonne)

| Jun 28 | Price | Prev. day |
|---|---|---|
| Daily | 975.08 | 989.15 |
| 10 day average | N/A | N/A |

■ COFFEE LCE ($/tonne)

| | | | | | | |
|---|---|---|---|---|---|---|
| Jul | 3078 | +108 | 3080 | 2975 | 4,873 | 870 |
| Sep | 3103 | +100 | 3110 | 3008 | 22,882 | 7,228 |
| Nov | 3111 | +103 | 3115 | 3025 | 7,984 | 2,530 |
| Jan | 3106 | +110 | 3115 | 3035 | 7,849 | 1,073 |
| Mar | 3093 | +125 | 3105 | 3025 | 3,223 | 295 |
| May | 3096 | +128 | 3085 | 3050 | 284 | 82 |
| Total | | | | | 47,936 | 11,880 |

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

| | | | | | | |
|---|---|---|---|---|---|---|
| Jul | 188.75 | +8.45 | 193.00 | 188.50 | 600 | 182 |
| Sep | 189.85 | +8.90 | 200.00 | 188.80 | 28,923 | 11,782 |
| Dec | 150.20 | +9.00 | 150.20 | 159.20 | 12,619 | 3,165 |
| Mar | 150.10 | +9.00 | - | - | 8,015 | 1,178 |
| May | 151.60 | +9.00 | - | - | 1,108 | 100 |
| Jul | 151.00 | +9.00 | 151.00 | 151.00 | 286 | 50 |
| Total | | | | | 51,557 | 16,426 |

■ COFFEE (ICO) (US cents/pound)

| Jun 28 | Price | Prev. day |
|---|---|---|
| Comp. daily | 157.97 | 149.75 |
| 15 day average | 127.21 | 124.19 |

■ No7 PREMIUM RAW SUGAR LCE (cents/lbs)

| | | | | | | |
|---|---|---|---|---|---|---|
| Jul | 11.90 | -0.12 | 11.95 | 11.90 | 3,122 | 1,444 |
| Oct | 11.95 | - | - | - | 1,101 | - |
| Jan | 11.82 | - | - | - | - | - |
| Mar | 11.87 | +0.02 | - | - | 60 | - |
| Total | | | | | 4,289 | 1,444 |

■ WHITE SUGAR LCE ($/tonne)

| | | | | | | |
|---|---|---|---|---|---|---|
| Aug | 347.20 | -0.40 | 348.10 | 346.00 | 10,693 | 717 |
| Oct | 318.30 | +0.60 | 318.10 | 316.00 | 10,166 | 744 |
| Dec | 312.10 | +0.70 | 311.50 | 310.50 | 637 | 37 |
| Mar | 310.10 | +0.80 | 309.50 | 308.10 | 3,157 | 468 |
| May | 309.70 | +0.60 | 310.40 | 310.40 | 340 | 20 |
| Aug | 309.60 | +1.10 | 310.40 | 310.40 | 342 | 20 |
| Total | | | | | 25,604 | 2,166 |

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

| | | | | | | |
|---|---|---|---|---|---|---|
| Jul | 11.54 | -0.07 | 11.61 | 11.43 | 4,865 | 3,612 |
| Oct | 11.63 | +0.04 | 11.66 | 11.52 | 84,947 | 12,106 |
| Mar | 11.38 | - | 11.42 | 11.32 | 28,946 | 4,168 |
| May | 11.33 | -0.02 | 11.38 | 11.30 | 4,401 | 512 |
| Jul | 11.28 | -0.02 | 11.29 | 11.33 | 1,992 | 71 |
| Oct | 11.22 | -0.02 | 11.23 | 11.23 | 875 | 1 |
| Total | | | | | 105,807 | 20,360 |

■ COTTON NYCE (50,000lbs; cents/lbs)

| | | | | | | |
|---|---|---|---|---|---|---|
| Jul | 70.65 | -0.85 | 72.00 | 70.65 | 1,416 | 582 |
| Oct | 71.61 | -0.65 | 72.60 | 71.25 | 8,223 | 2,697 |
| Dec | 71.95 | -0.41 | 72.90 | 71.55 | 27,218 | 9,743 |
| Mar | 73.03 | -0.60 | 73.85 | 72.95 | 6,288 | 1,517 |
| May | 73.95 | -0.40 | 74.70 | 73.70 | 2,306 | 667 |
| Jul | 74.60 | -0.33 | 75.30 | 74.56 | 1,365 | 463 |
| Total | | | | | 48,461 | 15,666 |

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

| | | | | | | |
|---|---|---|---|---|---|---|
| Jul | 88.85 | -2.35 | 89.50 | 88.65 | 3,284 | 775 |
| Sep | 90.65 | -2.45 | 93.75 | 90.60 | 13,010 | 934 |
| Nov | 93.70 | -2.20 | 98.25 | 93.60 | 2,781 | 189 |
| Jan | 96.65 | -2.25 | 98.25 | 96.65 | 3,627 | 219 |
| Mar | 99.05 | -2.20 | 102.00 | 99.05 | 1,581 | 152 |
| May | 101.00 | -2.50 | 104.00 | 101.00 | 128 | 22 |
| Total | | | | | 24,327 | 2,581 |

**VOLUME DATA**
*Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears.*

### INDICES

■ REUTERS (Base: 18/9/31=100)

| Jun 29 | Jun 28 | month ago | year ago |
|---|---|---|---|
| 2041.3 | 2027.4 | 1974.3 | 1659.5 |

■ CRB Futures (Base: 4/9/56=100)

| Jun 28 | Jun 27 | month ago | year ago |
|---|---|---|---|
| 230.40 | 227.76 | 235.35 | 205.14 |

### MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

| | Sett price | Day's change | High | Low | Open int | Vol |
|---|---|---|---|---|---|---|
| Aug | 63.525 | +0.050 | 63.750 | 63.075 | 34,446 | 11,420 |
| Oct | 67.950 | +0.375 | 68.100 | 67.325 | 19,768 | 4,355 |
| Dec | 69.100 | +0.375 | 69.200 | 68.450 | 10,938 | 2,644 |
| Feb | 68.950 | +0.225 | 69.000 | 68.475 | 8,824 | 2,215 |
| Apr | 69.750 | -0.075 | 70.125 | 69.550 | 3,762 | 537 |
| Jun | 66.725 | +0.075 | 67.150 | 66.700 | 779 | 202 |
| Total | | | | | 78,694 | 21,611 |

■ LIVE HOGS CME (40,000lbs; cents/lbs)

| | | | | | | |
|---|---|---|---|---|---|---|
| Jul | 46.900 | +0.100 | 46.975 | 46.400 | 4,577 | 1,923 |
| Aug | 45.475 | +0.075 | 45.700 | 45.050 | 9,231 | 2,198 |
| Oct | 42.725 | +0.150 | 43.025 | 42.425 | 5,089 | 1,633 |
| Dec | 42.875 | -0.125 | 43.000 | 42.750 | 3,496 | 321 |
| Feb | 42.675 | -0.150 | 42.900 | 42.500 | 864 | 115 |
| Apr | 41.925 | +0.125 | 42.100 | 41.775 | 538 | 37 |
| Total | | | | | 24,174 | 6,348 |

■ PORK BELLIES CME (40,000lbs; cents/lbs)

| | | | | | | |
|---|---|---|---|---|---|---|
| Jul | 38.000 | -0.450 | 38.450 | 37.500 | 1,988 | 918 |
| Aug | 37.750 | -0.350 | 38.150 | 37.150 | 4,412 | 2,458 |
| Feb | 46.650 | +1.025 | 46.700 | 45.550 | 1,373 | 645 |
| Mar | 45.400 | +1.150 | 45.700 | 45.400 | 51 | 11 |
| May | 48.050 | +1.200 | 48.050 | 47.200 | 64 | 17 |
| Jul | 48.200 | +1.700 | 48.200 | 47.000 | 18 | 3 |
| Total | | | | | 7,886 | 4,058 |

### LONDON TRADED OPTIONS

| Strike price $ tonne | Calls | | Puts | |
|---|---|---|---|---|
| ■ ALUMINIUM (99.7%) LME | Aug | Nov | Aug | Nov |
| 1425 | 65 | 107 | 23 | 43 |
| 1450 | 50 | 93 | 33 | 53 |
| 1475 | 37 | 80 | 45 | 66 |
| ■ COPPER (Grade A) LME | Aug | Nov | Aug | Nov |
| 2350 | 71 | 110 | 49 | 106 |
| 2400 | 46 | 85 | 75 | 133 |
| 2450 | 30 | 70 | 107 | 164 |
| ■ COFFEE LCE | Sep | Nov | Sep | Nov |
| 2250 | 930 | 982 | 77 | 121 |
| 2300 | 891 | 946 | 83 | 135 |
| 2350 | 858 | 911 | 100 | 150 |
| ■ COCOA LCE | Sep | Nov | Sep | Nov |
| 975 | 40 | 74 | 62 | 80 |
| 1000 | 31 | 65 | 78 | 95 |
| 1050 | 18 | 48 | 115 | 129 |
| ■ BRENT CRUDE IPE | Aug | Sep | Aug | Sep |
| 1650 | - | - | 9 | 31 |
| 1700 | 47 | 62 | 20 | 49 |
| 1750 | 26 | 42 | - | - |

### LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel/Aug)

| | | +or- |
|---|---|---|
| Dubai | $15.93-6.03q | +0.245 |
| Brent Blend (dated) | $17.24-7.26 | +0.29 |
| Brent Blend (Aug) | $17.32-7.34 | +0.32 |
| W.T.I. (1pm est) | $19.18-9.21 | +0.415 |

■ OIL PRODUCTS NWEprompt delivery CIF (tonne)

| | | |
|---|---|---|
| Premium Gasoline | $183-185 | +2 |
| Gas Oil | $154-155 | +2 |
| Heavy Fuel Oil | $83-86 | +1.5 |
| Naphtha | $184-186 | +2 |
| Jet Fuel | $166-167 | +2.5 |

*Petroleum Argus Estimates*

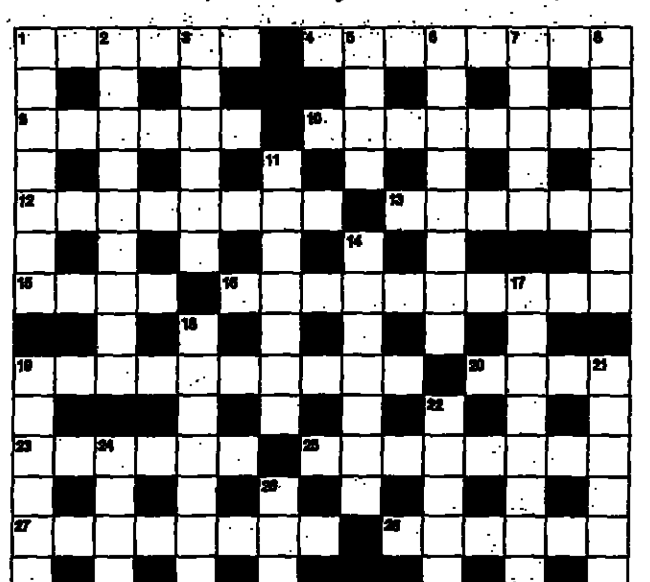
■ OTHER

| | | |
|---|---|---|
| Gold (per troy oz)♣ | $385.30 | -1.40 |
| Silver (per troy oz)♣ | 525.50c | -7.00 |
| Platinum (per troy oz.) | $399.5 | +1.75 |
| Palladium (per troy oz.) | $139.15 | +0.65 |
| Copper (US prod.) | 111.0c | -4 |
| Lead (US prod.) | 35.75c | |
| Tin (Kuala Lumpur) | 13.47m | -0.43 |
| Tin (New York) | 238.50c | |
| Zinc (US Prime W.) | Unq. | |
| Cattle (live weight)† | 120.07p | -2.06* |
| Sheep (live weight)†♠ | 96.30p | -3.73* |
| Pigs (live weight) | 77.58p | -2.51* |
| Lon. day sugar (raw) | $295.0 | -0.1 |
| Lon. day sugar (wte) | $351.6 | -4.2 |
| Tate & Lyle export | £302.0 | -1.0 |
| Barley (Eng. feed) | £100.5t | |
| Maize (US No3 Yellow) | $143.5 | - |
| Wheat (US Dark North) | £160.0 | |
| Rubber (Aug)♥ | 80.00p | +0.25 |
| Rubber (Sep)♥ | 80.00p | +0.25 |
| Rubber(KL RSS No1 Jul) | 291.5m | +5.5 |
| Coconut Oil (Phil)§ | $620.0z | +7.5 |
| Palm Oil (Malay.)§ | $482.5q | +7.0 |
| Copra (Phil)§ | $397 | |
| Soyabeans (US) | £177.5w | |
| Cotton Outlook A Index | 82.50c | -0.30 |
| Wooltops (64s Super) | 426p | |

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. q Aug. t Jul/Aug z Jun/Jul. w Jul. ♥ London Physical. § CIF Rotterdam. ♣ Bullion market close. ♠ Sheep (Live weight prices). * Change on week, provisional prices.

## CROSSWORD

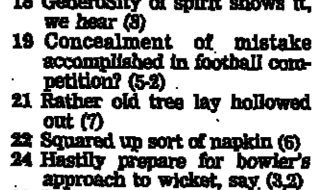
No.8,493 Set by DINMUTZ



**ACROSS**
1 This Latin opener in a sticky game? (6)
4 Boat-race meetings for example in a start that is false (8)
9 Shrewdness of a copper leading tough guys (6)
10 Bluetits flying .... or what you will, say? (8)
12 Respirators required for serious smokers (8)
13 Eagle Star Group (6)
15 Gunpoint opening (4)
16 Reducing with cooking-fat? (10)
19 This living fossil came from a chance lot at sea (10)
20 The point of fencing in the peers? (4)
23 Battle-axe giving the Roman fellow a turn? (6)
25 Signed on in silent order, taking notes (8)
27 Good position from which to see haymakers? (8)
28 Arise for a paper round (6)
29 Being seasoned, made shots all over the place (8)
30 Attractive pair by English painter of nudes? (6)

**DOWN**
1 Trial that makes sense (7)
2 Cry of pain in this French sleeping-berth ? (9)
3 Archdeacon in cathedral regularly (6)
5 These birds can not take off like parrots (4)
6 Oddly quaint corner thrown up such old artefacts? (8)
7 Everybody on the staff? (5)
8 Queen who visited Solomon no good in this affair (7)
11 Principal characteristic of vaulted passage (7)
14 Way of packing cold tar? (7)
17 Case retained, possibly for opening? (2-7)
18 Generosity of spirit shows it, we hear (8)
19 Concealment of mistake accomplished in football competition? (5-2)
21 Rather old tree lay hollowed out (7)
22 Squared up sort of napkin (6)
24 Hastily prepare for bowler's approach to wicket, say (3,2)
26 Pungency of kedgeree (4)

Solution 8,492




JOTTER PAD

# LONDON STOCK EXCHANGE

**MARKET REPORT**

# Strong gains as equities ignore dollar's setback

*By Terry Byland, UK Stock Market Editor*

A strong performance by UK government bonds set the stage for further, solid, recovery in share prices in London yesterday. Weakness in the US dollar failed to upset bond markets in Europe and turnover in UK equities was boosted by a heavy buying programme from a leading US investment bank. The closure of trading books for the second quarter of 1994 opened the way for fund managers to enter the market again.

Encouraged at the close by a 27-point gain on the Dow Average as New York opened the new session, the FT-SE 100 Index closed 37.3 points up at 2,946.3, only a shade under the best of the day. Even the market's dollar stocks brushed off the fall in the US currency and there were widespread gains in domestically orientated shares.

The stronger tone in equities reflected increasing confidence in the recovery in the UK economy. The upgrading of economic growth forecasts and downgrading of inflation predictions by the UK Treasury this week has helped to offset tensions caused by the dollar's fall.

Shares opened lower following Wall Street's overnight fall and the continued setback in the US currency. But the London market quickly drew heart from stock index futures and then from a highly successful outcome to the auction of £2bn of floating rate UK government securities. A steadier bond market has long been identified as the necessary base for a recovery in equities.

| Account Dealing Dates | | |
|---|---|---|
| *First Dealings: | | |
| Jun 20 | Jul 4 | Jul 18** |
| Option Declarations: | | |
| Jun 30 | Jul 14 | Jul 28 |
| Last Dealings: | | |
| Jul 1 | Jul 15 | n/a |
| Account Day: | | |
| Jul 11 | Jul 25 | n/a |

*New-time dealings may take place from two days earlier. **New 10-day settlement system starts

The ability of London and other European bond markets to brush off the weakness in US Federal bonds overnight played a leading role in strengthening the equity market.

A modest reduction in money market repo rates by the Bundesbank also served to strengthen confidence. Markets appeared to be resigned to the fall in the dollar, which deepened when the appointment of a Socialist prime minister in Japan cast clouds over prospects for the US-Japan trade talks, but seemed more sanguine on the dangers of higher US interest rates.

The strength of dollar stocks in London was confirmed by signs of a large buying programme from the US. Trading volume, slow at first, increased smartly in the second half of the session and the final Seaq figure of 764.9m shares compared with only 729.1m on Tuesday, when retail, or customer, business worth £1.23bn maintained average levels.

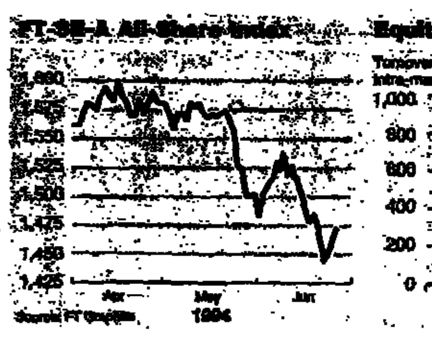
Around 63 per cent of yesterday's business was in non-Footsie stocks, indicating that buying was fully spread across the market. The FT-SE Mid 250 Index, which incorporates a wide range of second line issues, rose 31 points to 3,415.2.

Trading volume was also swollen by hectic activity in the oil sector as Friday's deadline for the Enterprise Oil bid for Lasmo drew nearer. Turnover in Lasmo exploded when Enterprise mounted a buying raid, suggesting that it was hopeful of success.

Almost every sector of the stock market joined in the general advance. Utilities continued to display optimism on the regulatory pricing outlook. Banks strengthened as the recovery in UK securities markets augured well for their customers' loan problems.

Consumer sectors, such as breweries and food retailers, looked for benefit as the recovery in the UK economy feeds through to their customers' pockets. There were also widespread gains across the general manufacturing, engineering and chemical sectors which are major players in the UK economy.

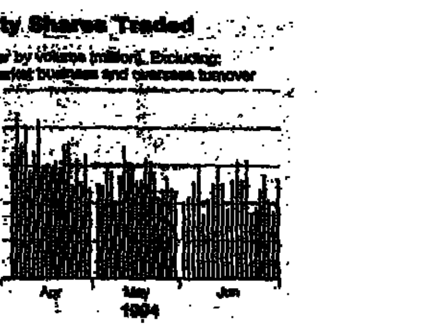
**FT-SE-A All-Share Index**



Source: FT Graphite

**Equity Shares Traded**

Turnover by volume (million). Excluding: intra-market business and overseas turnover



**■ Key Indicators**

**Indices and ratios**

| | | | | | |
|---|---|---|---|---|---|
| FT-SE 100 | 2946.3 | +37.3 | FT Ordinary Index | 2298.1 | +36.7 |
| FT-SE Mid 250 | 3415.2 | +31.0 | FT-SE-A Non Fins p/e | 18.83 | (18.59) |
| FT-SE-A 350 | 1482.4 | +17.5 | FT-SE100 Fut Sep | 2959.0 | +48.0 |
| FT-SE-A All-Share | 1473.24 | +15.99 | 10 yr Gilt yield | 8.53 | (8.64) |
| FT-SE-A All-Share yield | 4.01 | (4.05) | Long gilt/equity yld ratio: | 2.15 | (2.14) |

| Best performing sectors | | Worst performing sectors | |
|---|---|---|---|
| 1 Gas Distribution | +3.3 | 1 Oil Exploration & Prod | -2.2 |
| 2 Electricity | +3.1 | 2 Other Services & Bsns | -2.0 |
| 3 Household Goods | +2.1 | 3 Other Financial | -0.3 |
| 4 Transport | +2.0 | 4 FT-SE SmallCap ex IT | -0.2 |
| 5 Engineering, Vehicles | +2.0 | 5 Building & Construct | -0.2 |

# Oil group buys bid stake

The battle for control of Lasmo reached fever pitch when it emerged that Enterprise Oil had bought 9.8 per cent of Lasmo via two purchases. The first was 86.8m shares purchased at 169p and the second was 7.77m shares bought at 161p. The big market purchases drove turnover in Lasmo up to a very heavy 195m shares.

Many brokers were outraged at the way Enterprise had picked up the shares. "There were no bids in the market at 169p; the best bid marketmakers saw was 148p," said one oil specialist.

It was suggested that Philips & Drew Fund Management had sold the block of 86.8m shares to Enterprise's brokers and advisers, James Capel and S.G. Warburg, at 169p a share. The other big purchase, 7.77m shares , or 1.5 per cent, was bought for 161p apiece.

Following the day's events, Lasmo shares were up 2 to 143p, still well below the bid price, but those of Enterprise fell heavily, closing 26 lower at 386p, as the market took the view that Enterprise would only move to buy shares in Lasmo if it felt it was close to winning the bid battle.

"It is still very close, but the feeling is that the balance is starting to swing towards Enterprise," said one broker. He also pointed out that criticisms of Enterprise's methods of buying the near 10 per cent stake were not dissimilar to these carried out by Lasmo itself when it won control of Ultramar.

## Zeneca upbeat

Pharmaceuticals group Zeneca advanced 10 to 722p ahead of a significant presentation of one of its new products and a broker recommendation.

Zeneca announced shortly before the market closed that it was holding a presentation to leading psychiatrists on the results of clinical trials for its new schizophrenia treatment, Seroquel. In the announcement the company said the drug was an important addition to treatment in an area of "high unmet medical needs.

Stockbroker Mr Greig Middleton also published a note recommending the stock. Analyst Ms Julia Dickson said: "There are good drugs for treating this disease but they all have side effects. It looks as if this is efficacious and doesn't have side effects."

She added that last week's figures from chemicals group BTP had indicated that recessionary conditions were over "in every geographical area.

Mr Middleton advises a switch out of Wellcome, which it sees as overvalued by more than 100p. It believes suggestions that Wellcome has a takeout price of around 900p a share are vastly optimistic. "The recent acquisition of Syntex by Roche was priced at 2.5 times historic sales. An equivalent multiple would value Wellcome at only 589p," said the stockbroker. Wellcome ended 6 higher at 617p

Elsewhere, leading pharmaceuticals were driven higher by a strong performance in the futures market. Glaxo added 10 at 553p and SmithKline Beecham "A" 9 at 409p.

Stocks with a heavy profile in the US market resisted the weakness in the US dollar yesterday as they were supported by technical trading. However, Reuters Holdings the news and electronic information agency, shed a penny to 438p.

The regional electricity stocks made further rapid progress as the market continued to respond to the recent and more positive shift in expectations about the forthcoming distribution revue and the latest excellent dividend announcements in the sector. Eastern Electricity shares jumped 27 to 614p after the 19.8 per cent increase in the dividend, which was well in excess of market forecasts, while Northern, which increased its dividend payment by 15.8 per cent, rose the same amount to 670p. Other recs were also heavily supported, with South Western, reporting this morning, up 17 at 601p.

Newspaper shares marked time as the selling prompted by the recent price cuts dried up and marketmakers sat back to wait for the next set of circulation figures.

June sales figures are expected at the end of next week and will give an indication of whether newspapers, especially the mid-market tabloids which have resisted the cuts, have held their ground.

However, the figures will represent only 10 days of the new regime and analysts said the market would probably await the next set of figures in early August before the price war is ratcheted up to a new intensity. Telegraph shares dipped 6 to 379p but Daily Mail Trust 'A' shares held at 913p and United Newspapers, which owns the Daily Express, added 8 at 511p and Mirror Group firmed a penny to 127p.

Property shares powered ahead as the market latched on to the recent upgrades in forecasts for commercial property values. With added support from a strong gilts market, British Land was the sector's star performer as the shares jumped 20 to 389p. Land Securities advanced 14 to 622p and Brixton Estates 8 to 198p.

Positive sentiment for property stocks helped boost transport and property group P&O. The shares gained 18 to 640p.

Industrial group Charter was one of the day's best performing stocks. The company announced it was paying £260m for Esab Group, the Swedish welding equipment producer. The shares jumped 51 to 714p as the market celebrated the purchase which is to be partly funded by a one-for-four convertible rights issue at 560p a unit. Mr Andrew Mitchell at Smith New Court said the acquisition was "made at the right time in the cycle and it will be earnings enhancing."

Insurance broker Lloyd Thompson fell 45 to 185p as the firm warned that profits would be hit by lower interest rates and the fall in government bonds over the past quarter.

Conglomerate Tomkins eased a penny to 214p on speculation that it might launch a bid for food manufacturer Northern Foods, which appreciated 6 to 296p. Tomkins already owns baker RHM.

Broker recommendations in the US helped British Airways, which rose 9 to 366p.

Channel tunnel operator Eurotunnel underperformed the market, firming only a penny to 366p, on reports that the Eurostar passenger train service which is due to start at the end of this month will be delayed until the autumn.

Rolls-Royce gained 7½ at 177p after Henderson Crosthwaite urged investors to buy the stock, citing the prospect of a Saudi engine order in the near term.

TI Group fell 3 to 857p in volume of 2.8m. S.G. Warburg, the company's broker, was said to have been a seller.

**MARKET REPORTERS:**
Peter John,
Joel Kibazo,
Steve Thompson.

■ Other statistics, Page 24

## NEW HIGHS AND LOWS FOR 1994

NEW HIGHS (9). BANKS (1) Asahi, BUILDING & CNSTRN (1) Kajima, DIVERSIFIED INDLS (1) Mitsubishi, ELECTRNIC & ELECT EQUIP (1) Psamec, ENGINEERING (1) Kobe Steel, INVESTMENT TRUSTS (1) Mezzanine Cap., SPIRITS, WINES & CIDERS (1) Macdonald Martin A, SUPPORT SERVS (1) TRANSPORT (1)

NEW LOWS (140). GILTS (2) BREWERIES (1) Vaux, BUILDING & CNSTRN (11) Abbey, Avonside, Bellwinch, Costain, Higgs & Hill, Laing (J), Do 8.4pc Pf., McAlpine (A), Tay Homes, Tilbury Douglas, Wilson Bowden, BLDG MATLS & MCHTS (5) Aleaus, Haywood Williams, Pilkington Wts., DISTRIBUTORS (7) Abacus, Blakeley Motor, Caffyns, Cowie, European Motor, Nightfreight, Walpac, DIVERSIFIED INDLS (3) DCC, Powell Duffryn, Staveley Inds., ELECTRICITY (1) ELECTRNIC & ELECT EQUIP (3) ENGINEERING (3) Charring, Sadia, SNG, VEHICLES (1) SSG Int'l., EXTRACTIVE INDS (4) FOOD MANUF (4) Albert Fisher, Devro Int'l., Finlay (J), Polyphand (CF), GAS DISTRIBUTION (1) Calor, HEALTH CARE (5) HOUSEHOLD GOODS (6) INSURANCE (6) Bradstock, JIS, Lloyd Thompson, Lowndes Lambert, New London Capital, Topdanmark, Trade Indemnity, Willis Corroon, INVESTMENT TRUSTS (17) INVESTMENT COMPANIES (4) LEISURE & HOTELS (1) Ladbroke, LIFE ASSURANCE (1) Irish Life, MEDIA (1) OIL, INTEGRATED (1) Exxon, OTHER FINANCIAL (4) OTHER SERVS & BUSNS (1) Sutcliffe Speakman, PHARMACEUTICALS (3) Huntingdon Int'l., Medeva, Proteus Int'l., PRTNG, PAPER & PACKG (3) PROPERTY (11) RETAILERS, FOOD (3) Brake Bros., Greet, M & W, RETAILERS, GENERAL (9) SUPPORT SERVS (6) ACT, Clinical Computing, Elec. Data Procg., Hogg Robinson, Johnson Cleaners, MR Data Management, Macro 4, Ricardo, TELECOMMUNICATIONS (4) TEXTILES & APPAREL (6) Claremont Garments, Coats Viyella, Hamlet, Lister, Shed, TRANSPORT (3) Forth Ports, Mersey Docks & Harbour, WATER (2) Mid Kent Hldgs, Southern Water, AMERICANS (2).

## EQUITY FUTURES AND OPTIONS TRADING

*Stock index futures were boosted by the strong rally in bonds that followed the successful UK gilts auction, writes Joel Kibazo.*

The opening in the September contract on the FT-SE 100 at 2,913 was better than many traders had anticipated.

But for a very brief pause as a large sell order was executed, September moved steadily ahead during the morning in line with the performance in bonds and a squeeze in the cash market.

The firm opening on Wall Street brought another bout of active buying of the contract which sent it to the day's high of 2,967. Profit-taking in the dying minutes of the session saw it end at 2,961, up 50 from its previous close, at a strong premium to the underlying market and some two points ahead of its fair value premium to cash of about 13 points. Volume remained modest, at 14,997 lots. Further buying in after-hours' trading brought September to a close of 2,963.

Traded options remained dull and turnover fell to 19,536, against Tuesday's 24,862 contracts. However, volume in the FT-SE 100 showed an improvement on the previous day's total, reaching 9,500.

Marks and Spencer stood out among the stock options with the biggest turnover at 4,025 lots. It was followed by Guinness, which traded 1,700 contracts.

■ FT-SE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

| | Open | Sett price | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Sep | 2913.0 | 2959.0 | +48.0 | 2967.0 | 2909.0 | 14997 | 52802 |
| Dec | 2960.0 | 2967.0 | +47.0 | 2960.0 | 2960.0 | 5 | 962 |

■ FT-SE MID 250 INDEX FUTURES (LIFFE) £10 per full index point

| | Open | Sett price | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Sep | | 3405.0 | +35.0 | | | 0 | 4407 |

■ FT-SE MID 250 INDEX FUTURES (OMLX) £10 per full index point

| | Open | Sett price | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Sep | | 3405.0 | | | | | 636 |

All open interest figures are for previous day. † Exact volume shown.

■ FT-SE 100 INDEX OPTION (LIFFE) (2946) £10 per full index point

■ EURO STYLE FT-SE 100 INDEX OPTION (LIFFE) £10 per full index point

■ EURO STYLE FT-SE MID 250 INDEX OPTION (OMLX) £10 per full index point

## TRADING VOLUME

■ Major Stocks Yesterday

| | Vol. 000s | Closing price | Day's change |
|---|---|---|---|
| ASDA Group† | 6,200 | 61½ | |
| Abbey National† | 1,200 | 406 | +10 |
| Albert Fisher | 1,000 | 48 | |
| Allied-Lyons† | 3,000 | 563 | +4 |
| Anglian Water | 360 | 478 | +9 |
| Argos | 1,000 | 342 | +1 |
| Argyll Group† | 6,300 | 236 | +2 |
| Arjo Wiggins† | 1,600 | 265 | +10 |
| Assoc. Brit. Foods† | 976 | 504 | +6½ |
| Assoc. Brit. Ports | 365 | 247 | +6 |
| BAA† | 1,300 | 687 | +14 |

## FT-SE Actuaries Share Indices — The UK Series

■ FT-SE Actuaries All-Share

■ Hourly movements

■ FT-SE Actuaries 350 Industry baskets

# LONDON EQUITIES

## LIFFE EQUITY OPTIONS

## RISES AND FALLS YESTERDAY

| | Rises | Falls | Same |
|---|---|---|---|
| British Funds | 57 | 7 | 8 |
| Other Fixed Interest | 4 | 0 | 11 |
| Mineral Extraction | 53 | 47 | 89 |
| General Manufacturers | 141 | 122 | 397 |
| Consumer Goods | 54 | 34 | 104 |
| Services | 90 | 89 | 328 |
| Utilities | 30 | 8 | 7 |
| Financials | 87 | 77 | 209 |
| Investment Trusts | 108 | 41 | 320 |
| Others | 33 | 40 | 58 |
| Totals | 657 | 465 | 1541 |

Data based on those companies listed on the London Share Service.

## TRADITIONAL OPTIONS

| | | | |
|---|---|---|---|
| First Dealings | June 27 | Last Declarations | Sept 29 |
| Last Dealings | July 8 | For settlement | Oct 10 |

Calls: Clyde Pet, Mosaic Inv, MTM, Norbain, OEM, Regent Corp, Tullow Oil, Puts: Eurotunnel, OEM, Phonelink. Puts & Calls: Aminex, Babcock, FKI, Greenwich Res, Regalian.

## LONDON RECENT ISSUES: EQUITIES

## RIGHTS OFFERS

## FINANCIAL TIMES EQUITY INDICES

## FT GOLD MINES INDEX

## BANKS

| | Notes | Price | + or - | 1994 high | 1994 low | Mkt Cap£m | Yld Gr's | P/E |
|---|---|---|---|---|---|---|---|---|
| ABN Amro Fl | | £21⅞ | +⅛ | £23¼ | £20⅞ | 6,263 | 6.3 | ♦ |
| ANZ A$ | | 185 | +4½ | 276¼ | 179¼ | 2,473 | 5.0 | 14.3 |
| Abbey National | N□ | 409 | +10 | 523 | 381 | 5,329 | 4.3 | 13.8 |
| Allied Irish I£ | ♣N□ | 238 | — | 314 | 234 | 1,688 | 5.3 | 9.1 |
| Anglo Irish I£ | ♣N□ | 50xd | — | 70 | 50 | 172.1 | 8.6 | 8.1 |
| Asahi Y | | 781¼ | +13½ | 781¼ | 626 | 10,129 | 0.6 | ♦ |
| Banco Bil Viz Pts | | £14⅞ | +⅛ | £19⅞ | £14⅞ | 3,415 | 5.6 | 8.7 |
| Banco Sant Pts | | £30½ | — | £30½ | £23¾ | 4,809 | 4.7 | 10.6 |
| Bk Ireland I£ | ♣□ | 259xd | — | 319 | 246 | 1,219 | 5.1 | 7.5 |
| Bank Scotland | ♣N□ | 190xd | +2½ | 247 | 172½ | 2,283 | 3.2 | 10.0 |
| 9¼pc Pf | | 117 | +¼ | 141½ | 114 | 117.8 | 9.9 | – |
| 9¾pc Pf | | 122 | +¼ | 148½ | 119¾ | 122.0 | 10.0 | – |
| Barclays | ♣N□ | 536 | +13 | 640 | 487 | 8,704 | 3.5 | 22.2 |
| Dai Ichi Kan Y | | £12⅞ | –⅞ | £12⅞ | £10⅞ | 39,707 | 0.4 | 70.4 |
| Deutsche DM | | £278⅞ | –⅞ | £344¾ | £270⅞ | 13,170 | 2.2 | – |
| Espirito Santo | | £17⅞ | — | £26⅞ | £17⅞ | 190.1 | 4.5 | 4.3 |
| First Nat Fin | N□ | 74½ | +½ | 90 | 60 | 121.6 | 2.5 | – |
| 6.3pc Cv Pf | | 80xd | — | 90 | 77 | 6.38 | 9.8 | – |
| 7pc Cv Pf | | 130xd | — | 171 | 123 | 88.0 | 6.3 | – |
| Fuji Bank Y | | 1488¼ | +4¼ | 1548¼ | 1152½ | 43,105 | 0.4 | ♦ |
| HSBC HK | N□ | 702 | +6 | 1133 | 684 | 12,285 | 4.2 | 10.2 |
| HSBC (75p Shs) | N□ | 692 | +3 | 1113 | 665 | 5,776 | 4.3 | 9.9 |
| Lloyds | N□ | 539 | +16 | 660 | 520 | 6,969 | 5.1 | 11.4 |
| Mitsubishi Y | | £17¼ | +⅛ | £18⅞ | £15⅝ | 49,718 | 0.3 | ♦ |
| Mits Tst & Bk Y | | 1081 | +29¼ | 1162¼ | 687½ | 14,876 | 0.5 | 17.4 |
| Mitsui Tst & Bk Y | | 809 | +15½ | 879 | 514 | 8,894 | 0.7 | 27.6 |
| Nat Aust A$ | † | 509xd | +10¼ | 620¼ | 489¼ | 6,611 | 4.7 | 12.4 |
| NatWest | N□ | 498 | +14 | 622 | 427 | 7,597 | 5.1 | 10.4 |
| Ottomane FFr | | £23½ | — | £33 | £23½ | 117.5 | 6.2 | ♦ |
| Ryl Bk Scotland | ♣†N□ | 425xd | +4 | 528 | 382½ | 3,387 | 3.5 | 19.2 |
| Sakura Y | | £9⅞ | +⅞ | £9⅞ | £8⅞ | 30,511 | 0.6 | 57.5 |
| Sanwa Y | | £14⅞ | +⅞ | £18¼ | £11⅞ | 42,736 | 0.4 | ♦ |
| Standard Chartd | N□ | 247xd | — | 369¼ | 223 | 2,373 | 3.0 | 10.8 |
| 7 3/8pc Prf | | 92 | +¼ | 108½ | 89¼ | 82.0 | 10.0 | – |
| Sumitomo Y | | £14⅞ | +⅞ | £18¼ | £11½ | 44,545 | 0.4 | 30.5 |
| Sumitomo Tst Y | | 1049¼ | –6½ | 1146½ | 625 | 13,098 | 0.5 | ♦ |
| TSB | †N□ | 210 | +6 | 291 | 202 | 3,213 | 4.9 | 10.4 |
| Tokai Y | | £8⅞ | –⅛ | £9 | £6⅞ | 17,729 | 0.6 | 58.4 |
| Toyo Tst & Bk Y | | 814 | +7½ | 862 | 586¼ | 6,397 | 0.6 | 72.6 |
| Westpac A$ | | 204xd | +5 | 280 | 194 | 3,576 | 2.7 | ♦ |
| Yasuda Tst Bk Y | ‡ | 629½ | +3 | 666 | 442 | 6,900 | 0.8 | 56.8 |

## BREWERIES

| | Notes | Price | + or - | 1994 high | 1994 low | Mkt Cap£m | Yld Gr's | P/E |
|---|---|---|---|---|---|---|---|---|
| Ascot Hldgs | □ | 5¼ | — | 10¼ | 5¼ | 19.5 | – | – |
| Bass | †N□ | 560xd | +11 | 619 | 485 | 4,381 | 5.2 | 13.2 |
| Boddington | N□ | 252 | +1 | 298 | 250 | 305.7 | 4.0 | 14.1 |
| Burtonwood | | 188 | — | 198 | 168 | 38.1 | 3.2 | 15.7 |
| Eldridge Pope A | ‡†N | 163 | –1 | 181 | 142 | 29.8 | 3.0 | 21.0 |
| Fosters A$ | | 59 | +2½ | 69 | 48¾ | 1,811 | 5.8 | 58.6 |
| Fuller STA | ‡† | 423 | +1 | 493 | 422 | 88.3 | 2.2 | 17.8 |
| Gibbs Mew | ‡† | 414 | — | 423 | 373 | 28.6 | 2.5 | 20.5 |
| Greenalls | ‡†N□ | 413xd | +4 | 511 | 406 | 862.8 | 3.8 | 15.8 |
| Greene King | †N□ | 456 | — | 584 | 456 | 182.9 | 3.4 | 12.8 |
| Grosvenor Inns | ‡‡†9 | 134 | — | 165 | 134 | 17.8 | 4.2 | 20.3 |

## CHEMICALS

## DISTRIBUTORS

## BUILDING & CONSTRUCTION

## BUILDING MATS. & MERCHANTS

## DIVERSIFIED INDUSTRIALS

## ELECTRICITY

## ELECTRONIC & ELECTRICAL EQPT

## ELECTRONIC & ELECTRICAL EQPT - Cont.

## ENGINEERING

## ENGINEERING, VEHICLES

## EXTRACTIVE INDUSTRIES

## FOOD MANUFACTURERS

## GAS DISTRIBUTION

## HEALTH CARE

## HEALTH CARE - Cont.

## HOUSEHOLD GOODS

## INSURANCE

## INVESTMENT TRUSTS

## INVESTMENT TRUSTS - Cont.

## LONDON SHARE SERVICE

### INVESTMENT TRUSTS - Cont.

| Notes | Price | + or - | 1994 High | 1994 Low | Yld Gr's | NAV | Dis or Pm(-) |
|---|---|---|---|---|---|---|---|
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

### OTHER INVESTMENT TRUSTS

### INVESTMENT COMPANIES

### LEISURE & HOTELS

### LEISURE & HOTELS - Cont.

### LIFE ASSURANCE

### MEDIA

### MERCHANT BANKS

### OIL EXPLORATION & PRODUCTION

### OIL, INTEGRATED

### OTHER FINANCIAL

### OTHER SERVICES & BUSINESSES

### PHARMACEUTICALS

### PRINTING, PAPER & PACKAGING

### PROPERTY

### PROPERTY - Cont.

### RETAILERS, FOOD

### RETAILERS, GENERAL

### SPIRITS, WINES & CIDERS

### SUPPORT SERVICES

### TELECOMMUNICATIONS

### TEXTILES & APPAREL

### TOBACCO

### TRANSPORT

### TRANSPORT - Cont.

### WATER

### AMERICANS

### CANADIANS

### SOUTH AFRICANS

### GUIDE TO LONDON SHARE SERVICE

[illegible]

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# FT MANAGED FUNDS SERVICE

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## AUTHORISED UNIT TRUSTS

### Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro §§

**INITIAL CHARGE:** Charge made on sale of units. Used to defray marketing and administrative costs, including commission paid to intermediaries. This charge is included in the price of units.

**OFFER PRICE:** Also called issue price. The price at which units are bought by investors.

**BID PRICE:** Also called redemption price. The price at which units are sold back by investors.

**CANCELLATION PRICE:** The minimum redemption price. The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, most unit trust managers quote a much narrower spread. As a result, the bid price is often set above the cancellation price. However, the bid price might be moved to the cancellation price by the managers at any time, usually in circumstances in which there is a large excess of sellers of units over buyers.

**TIME:** The time shown alongside the fund manager's name is the time of the unit trust's valuation point unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: (♥) - 0001 to 1100 hours; (♣) - 1101 to 1400 hours; (♠) - 1401 to 1700 hours; (♦) - 1701 to midnight. Daily dealing prices are set on the basis of the valuation point; a short period of time may elapse before prices become available.

**HISTORIC PRICING:** The letter H denotes that the managers will normally deal on the price set on the most recent valuation. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis. The managers must deal at a forward price on request, and may move to forward pricing at any time.

**FORWARD PRICING:** The letter F denotes that the managers deal at the price to be set on the next valuation. Investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper are the most recent provided by the managers.

**SCHEME PARTICULARS AND REPORTS:** The most recent report and scheme particulars can be obtained free of charge from fund managers.

Other explanatory notes are contained in the last column of the FT Managed Funds Service.

§§ Life Assurance and Unit Trust Regulatory Organisation, Centre Point, 103 New Oxford Street, London WC1A 1QH
Tel: 071-379-0444.

# FT MANAGED FUNDS SERVICE

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Thornton Unit Managers Ltd - Contd.

Waverley Unit Tst Mngmt Ltd (1000)F

13 Charlotte Sq, Edinburgh

Whittingdale Unit Tst Mgmt Ltd (0930)F

2 Honey Lane, London EC2V 8BT

Woolwich Unit Trust Managers Ltd (1700)H

2 White Oak Square, Swanley BR8 7AG

## OTHER UK UNIT TRUSTS

Baillie Gifford & Co Ltd

Baring Investment Mngmt Ltd

CAF – Charity Money Management

## INSURANCES

Abbey Life Assurance Co Ltd - Contd.

Abbey National Life Plc

287 St Vincent Street, Glasgow

Acuma Life Assurance Ltd

AEGON Life Assurance Co (UK) Ltd

Century Life Plc

Friends Provident

Irish Life Assurance Co Plc - Contd.

MGM Assurance

Norwich Union Life Insurance Soc. - Contd.

Prudential Individual Pension Funds

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## Scottish Mutual Assurance plc

## Scottish Provident Group

## OFFSHORE INSURANCES

## MANAGEMENT SERVICES

## OFFSHORE AND OVERSEAS

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## GUERNSEY (REGULATED)(**)

## IRELAND (SIB RECOGNISED)

## IRELAND (REGULATED)(**)

## ISLE OF MAN (SIB RECOGNISED)

## ISLE OF MAN (REGULATED)(**)

## JERSEY (SIB RECOGNISED)

## JERSEY (REGULATED)(**)

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## LUXEMBOURG (SIB RECOGNISED)

## LUXEMBOURG (REGULATED)(**)

## OTHER OFFSHORE FUNDS

# CURRENCIES AND MONEY

MARKETS REPORT

## Dollar dips to new low

The dollar fell yesterday to a *post-war low of Y98.55 against* the yen amid uncertainties about the policy implications of a new Japanese prime minister, *writes Philip Gawith.*

The US currency closed slightly higher in London at Y98.675, from Y100.210 on Tuesday, and at DM1.5825 against the D-Mark from DM1.5849.

Traders said sentiment towards the dollar remained bearish, but trade was patchy. "Wimbledon is providing much more interest than the market," commented one observer.

*European currencies again* took a back seat to the dollar, with the features being the weaker lira and a firmer peseta. The Belgian central bank cut its central rate to 4.95 per cent from 5 per cent, while the *Bundesbank trimmed its* repo rate to 4.96 per cent from 5 per cent.

Sterling closed little changed against the dollar at $1.547 from $1.5466, but was slightly down against the D-Mark at *DM2.4482* from *DM2.4513.*

■ There was little news for dollar bulls to cheer about, save for the overnight comments from Mr Lloyd Bentsen, the US treasury secretary. He told a New York audience that: "We believe a stronger dollar is *better for our economy* and better for the world economy."

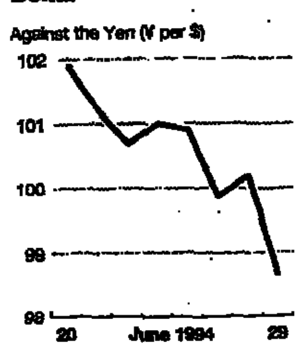
He added: "The dollar is not a tool of our trade policy." This was the strongest position yet articulated by the US administration. In early May, Mr Bentsen *said that the US "saw no* advantage in an undervalued currency."

Mr David Cocker, economic analyst at Chemical Bank in London, said "verbal intervention needs to be at least one leg of any currency intervention that takes place."

*He added that, to be credible,* it needed to be repeated "from a wide number of sources from within the administration." Conflicting messages from other senior officials would undermine the good work.

Confusing the picture was the political change in Japan which saw the election of a Socialist prime minister, Mr *Tomiichi Murayama.* Analysts said the market was very ambivalent about this move.

**Dollar**




Source: FT Graphite

**■ Pound in New York**

| Jun 29 | —Latest— | — Prev. close — |
|---|---|---|
| £ spot | 1.5465 | 1.5625 |
| *1 mth* | *1.5462* | 1.5518 |
| 3 mth | 1.5452 | 1.5610 |
| 1 yr | 1.5416 | 1.5468 |

One concern includes the greater sympathy of the Socialists for North Korea, while the market was also trying to sift through what the implications might be for progress in the *trade talks.*

Some observers also believe that Mr Murayama's victory will complicate efforts to pass tax reform legislation.

Mr Ian Gunner, international economist at Chase Manhattan in *London, said the dollar* would be in a lot of trouble if the Fed did not move to raise interest rates soon. The key, he said, was that it should not be seen to be panicking.

"As long as the Fed can place a monetary policy tightening in terms of what it has *been doing already to fight* inflation, I think it will be OK," he said.

Yesterday the September eurodollar future was trading at 94.70, discounting 3-month money at 5.30 per cent compared to the current level of about 4.8 per cent.

*Mr Cocker said the dollar* needed US short term rates to move above those in Germany. The US federal funds rate is currently 4.25 per cent, compared to the German repo rate of 4.96 per cent.

■ TIn Europe the lira weakened further, *closing at L990.6* from L986.9 against the D-Mark. *Analysts were at odds* about the explanation for why the Italian currency is approaching L1,000 for the third time since early 1993, but said it was more than a case simply of generalised D-Mark strength.

Some said the market was unsure about whether the government had the ability to curb *the budget deficit.* But Mr Giorgio Radaelli, economist at Lehman Brothers in London, said this explanation was incompatible with the recent strength of the Italian bond market.

He said the weakness of the *lira was probably attributable* to technical trading. "I don't see any reason why the lira should move at odds with bond prices," said Mr Radaelli.

Elsewhere in Europe the peseta continued its recovery, closing at *Pta 82.15* from Pta82.42 against the D-Mark. Mr Gunner of Chase said currency strength was based on a recovery in the bond market that had restored faith in Spanish assets in general.

The Belgian franc closed unchanged at BFr20.60 against *the D-Mark, although there* was some concern about the implications of allowing interest rates to fall below those in Germany. Traders noted, however, that there was no fundamental reason for D-Mark *strength, which is more a function* of dollar weakness.

■ The Bank of England provided £720m liquidity to the UK money markets after forecasting a daily shortage of £700m. Overnight money traded between 4 and 5 per cent.

German call money traded at the 6 per cent Lombard rate after the Bundesbank unexpectedly drained DM2.8bn in the weekly repo.

Sentiment in the interest rate futures markets was more positive, but trade was fairly light. *The December euromark* contract traded nearly 27,000 lots to close six basis points firmer at 94.94. The December eurosterling contract settled at 93.77 from 93.76.

**■ OTHER CURRENCIES**

| Jun 29 | £ | $ |
|---|---|---|
| Hungary | *157.263 - 157.442* | *101.690 - 101.740* |
| Iran | 2699.00 - 2707.00 | 1746.00 - 1750.00 |
| Kuwait | 0.4567 - 0.4578 | 0.2953 - 0.2958 |
| Poland | *34558.5 - 34617.5* | *22345.0 - 22370.0* |
| Russia | 3067.70 - 3078.53 | 1983.00 - 1990.00 |
| U.A.E. | 5.6719 - 5.6834 | 3.6715 - 3.6735 |

## POUND SPOT FORWARD AGAINST THE POUND

| Jun 29 | | Closing mid-point | Change on day | Bid/offer spread | Day's Mid high | low | One month Rate | %PA | Three months Rate | %PA | One year Rate | %PA | Bank of Eng. Index |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Europe** | | | | | | | | | | | | | |
| Austria | (Sch) | 17.2181 | -0.0265 | 087 - 275 | 17.3054 | 17.2087 | 17.2143 | 0.3 | 17.2067 | 0.2 | - | - | 114.7 |
| Belgium | (BFr) | 50.4322 | -0.0651 | 082 - 562 | 50.6450 | 50.3790 | 50.4222 | 0.2 | 50.4772 | -0.4 | 50.5072 | -0.1 | 116.1 |
| Denmark | (DKr) | 9.6073 | -0.0149 | 999 - 146 | 9.6477 | 9.5969 | 9.6145 | -0.9 | 9.6338 | -1.1 | 9.6661 | -0.6 | 116.3 |
| Finland | (FM) | 8.1377 | -0.0064 | 273 - 481 | 8.1950 | 8.1140 | - | - | - | - | - | - | 81.3 |
| France | (FFr) | 8.3979 | -0.0012 | 921 - 037 | 8.4230 | 8.3818 | 8.4022 | -0.6 | 8.4096 | -0.5 | 8.3882 | 0.1 | 109.1 |
| Germany | (DM) | 2.4482 | -0.0031 | 466 - 497 | 2.4609 | 2.4437 | 2.4481 | 0.0 | 2.4472 | 0.2 | 2.4272 | 0.9 | 125.2 |
| Greece | (Dr) | 369.501 | -0.676 | 995 - 007 | 371.131 | 368.995 | - | - | - | - | - | - | - |
| *Ireland* | *(I£)* | *1.0119* | *-0.0005* | *108 - 129* | *1.0157* | *1.0093* | *1.0123* | -0.4 | *1.0131* | -0.5 | *1.0148* | -0.2 | 104.9 |
| Italy | (L) | 2425.04 | +5.89 | 375 - 633 | 2429.29 | 2419.02 | 2431.44 | -3.2 | 2444.39 | -3.2 | 2491.64 | -2.7 | 76.5 |
| Luxembourg | (LFr) | 50.4322 | -0.0651 | 082 - 562 | 50.6460 | 50.3790 | 50.4222 | 0.2 | 50.4772 | -0.4 | 50.5072 | -0.1 | 116.1 |
| *Netherlands* | (Fl) | *2.7457* | *-0.0048* | *440 - 473* | 2.7604 | 2.7433 | *2.7454* | *0.1* | 2.7448 | *0.1* | 2.7287 | 0.8 | 120.1 |
| Norway | (NKr) | 10.6672 | -0.0081 | 622 - 722 | 10.7060 | 10.6530 | 10.6616 | 0.6 | 10.6741 | -0.3 | 10.6653 | 0.0 | 96.1 |
| Portugal | (Es) | 251.697 | -0.554 | 461 - 933 | 253.980 | 250.609 | 252.672 | -4.6 | 254.617 | -4.6 | - | - | - |
| Spain | (Pta) | 201.188 | -0.637 | 045 - 330 | 202.137 | 201.045 | 201.643 | -2.7 | 202.583 | -2.6 | 205.463 | -2.1 | 86.2 |
| Sweden | (SKr) | 11.8122 | +0.04 | 026 - 218 | 11.8420 | 11.7620 | 11.8352 | -2.3 | 11.8702 | -2.0 | 11.9682 | -1.3 | 75.0 |
| Switzerland | (SFr) | 2.0614 | -0.0002 | 599 - 628 | 2.0658 | 2.0554 | 2.06 | 0.8 | 2.057 | 0.9 | 2.0321 | 1.4 | 120.4 |
| UK | (£) | - | - | - | - | - | - | - | - | - | - | - | 79.6 |
| Ecu | - | 1.2791 | -0.0012 | 781 - 800 | 1.2837 | 1.2768 | 1.2801 | -0.9 | 1.2766 | 0.8 | 1.2836 | -0.3 | - |
| SDR† | - | 0.935991 | - | - | - | - | - | - | - | - | - | - | - |
| **Americas** | | | | | | | | | | | | | |
| Argentina | (Peso) | 1.5449 | +0.0001 | 443 - 455 | 1.5545 | 1.5443 | - | - | - | - | - | - | - |
| Brazil | (Cr) | 4094.89 | +1.05 | 355 - 623 | 4120.00 | 4093.55 | - | - | - | - | - | - | - |
| Canada | (C$) | 2.1383 | -0.005 | 382 - 403 | 2.1534 | 2.1382 | 2.1413 | -1.1 | 2.1474 | -1.5 | 2.179 | -1.9 | 85.6 |
| Mexico | (New Peso) | 5.2451 | +0.0013 | 395 - 507 | 5.2688 | 5.2395 | - | - | - | - | - | - | - |
| USA | ($) | 1.5470 | +0.0004 | 465 - 475 | 1.5565 | 1.5460 | 1.5464 | 0.5 | 1.5457 | 0.3 | 1.5418 | 0.3 | 63.2 |
| **Pacific/Middle East/Africa** | | | | | | | | | | | | | |
| Australia | (A$) | 2.1375 | -0.0021 | 360 - 389 | 2.1605 | 2.1348 | 2.1368 | 0.4 | 2.1352 | 0.4 | 2.1342 | 0.2 | - |
| Hong Kong | (HK$) | 11.9563 | +0.0027 | 517 - 609 | 12.0286 | 11.9485 | 11.9482 | 0.8 | 11.9444 | 0.4 | 11.9712 | -0.1 | - |
| India | (Rs) | 48.5294 | +0.0144 | 098 - 489 | 48.5490 | 48.5020 | - | - | - | - | - | - | - |
| Japan | (Y) | 152.650 | -2.335 | 562 - 738 | 155.120 | 152.562 | 152.275 | 2.9 | 151.465 | 3.1 | 147.155 | 3.6 | 191.7 |
| Malaysia | (M$) | 4.0298 | +0.0114 | 277 - 319 | 4.0516 | 4.0269 | - | - | - | - | - | - | - |
| New Zealand | (NZ$) | 2.6090 | -0.002 | 070 - 109 | 2.6300 | 2.6070 | 2.6083 | 0.3 | 2.6119 | -0.4 | 2.6184 | -0.4 | - |
| Philippines | (Peso) | 41.7691 | +0.0108 | 462 - 920 | 42.2987 | 41.4370 | - | - | - | - | - | - | - |
| Saudi Arabia | (SR) | 5.8018 | +0.0015 | 997 - 039 | 5.8372 | 5.7979 | - | - | - | - | - | - | - |
| Singapore | (S$) | 2.3564 | -0.0019 | 552 - 575 | 2.3705 | 2.3552 | - | - | - | - | - | - | - |
| S Africa (Com.) | (R) | 5.6361 | +0.0092 | 339 - 422 | 5.6617 | 5.6281 | - | - | - | - | - | - | - |
| *S Africa (Fin.)* | (R) | 7.3580 | +0.0098 | 381 - 738 | 7.4251 | 7.3381 | - | - | - | - | - | - | - |
| South Korea | (Won) | 1245.72 | -1.07 | 524 - 620 | 1253.29 | 1244.91 | - | - | - | - | - | - | - |
| Taiwan | (T$) | 41.5722 | -0.0689 | 475 - 968 | 41.8440 | 41.5475 | - | - | - | - | - | - | - |
| *Thailand* | (Bt) | *38.7060* | *-0.0208* | *780 - 339* | *38.9280* | *38.6780* | - | - | - | - | - | - | - |

†SDR rate for Jun 28. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1985 = 100. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

## DOLLAR SPOT FORWARD AGAINST THE DOLLAR

| Jun 29 | | Closing mid-point | Change on day | Bid/offer spread | Day's mid high | low | One month Rate | %PA | Three months Rate | %PA | One year Rate | %PA | J.P Morgan Index |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Europe** | | | | | | | | | | | | | |
| Austria | (Sch) | 11.1300 | -0.02 | 275 - 325 | 11.1575 | 11.0855 | 11.1345 | -0.5 | 11.1425 | -0.4 | 11.08 | 0.4 | 103.9 |
| Belgium | (BFr) | 32.6000 | -0.0505 | 950 - 050 | 32.6680 | 32.4300 | 32.6175 | -0.6 | 32.655 | -0.7 | 32.66 | -0.2 | 105.3 |
| Denmark | (DKr) | 6.2103 | -0.0112 | 075 - 130 | 6.2260 | 6.1855 | 6.2193 | -1.7 | 6.2383 | -1.8 | 6.2828 | -1.2 | 104.9 |
| Finland | (FM) | 5.2603 | -0.0055 | 553 - 653 | 5.2790 | 5.2239 | 5.2635 | -0.7 | 5.2763 | -1.2 | 5.3428 | -1.6 | 76.3 |
| France | (FFr) | 5.4285 | -0.0022 | 265 - 305 | 5.4352 | 5.3980 | 5.4334 | -1.1 | 5.4402 | -0.9 | 5.4165 | 0.2 | 105.5 |
| Germany | (D) | 1.5825 | -0.0024 | 820 - 830 | 1.5880 | 1.5735 | 1.5831 | -0.5 | 1.5833 | -0.2 | 1.5743 | 0.5 | 106.2 |
| Greece | (Dr) | 238.650 | -0.5 | 600 - 100 | 239.400 | 237.800 | 240.2 | -6.8 | 241.05 | -3.7 | 243.35 | -1.9 | 69.1 |
| *Ireland* | (I£) | *1.5289* | *+0.0012* | *278 - 300* | *1.5397* | *1.5251* | *1.5279* | 0.8 | 1.5257 | 0.9 | 1.5194 | 0.6 | - |
| Italy | (L) | 1567.58 | +3.28 | 725 - 790 | 1568.25 | 1557.50 | 1572.33 | -3.6 | 1581.43 | -3.5 | 1615.96 | -3.1 | 77.3 |
| Luxembourg | (LFr) | 32.6000 | -0.0505 | 950 - 050 | 32.6600 | 32.4300 | 32.6175 | -0.6 | 32.665 | -0.7 | 32.66 | -0.2 | 105.3 |
| *Netherlands* | (Fl) | *1.7748* | *-0.0037* | 743 - 753 | 1.7786 | 1.7652 | 1.7756 | *-0.6* | *1.7758* | -0.2 | 1.7666 | *0.5* | *105.2* |
| Norway | (NKr) | 6.8954 | -0.007 | 944 - 964 | 6.9160 | 6.8596 | 6.8999 | -0.8 | 6.9144 | -1.1 | 6.8144 | 1.2 | 96.3 |
| Portugal | (Es) | 162.700 | -0.4 | 600 - 800 | 163.350 | 161.600 | 164.355 | -12.2 | 166.775 | -10.0 | 171.05 | -5.1 | 93.9 |
| Spain | (Pta) | 130.050 | -0.575 | 000 - 100 | *130.350* | *129.620* | 130.395 | -3.2 | *131.07* | -3.1 | 133.29 | -2.5 | 81.0 |
| Sweden | (SKr) | 7.6358 | +0.0239 | 318 - 393 | 7.6420 | 7.5635 | 7.6538 | -2.8 | 7.6866 | -2.7 | 7.8348 | -2.6 | 80.7 |
| Switzerland | (SFr) | 1.3325 | -0.0005 | 320 - 330 | 1.3345 | 1.3234 | 1.3322 | 0.3 | 1.3308 | 0.5 | 1.3181 | 1.1 | 106.6 |
| UK | (£) | 1.5470 | +0.0004 | 465 - 475 | 1.5565 | 1.5460 | 1.5464 | 0.5 | 1.5457 | 0.3 | 1.5418 | 0.3 | 88.2 |
| Ecu | - | 1.2095 | +0.0015 | 090 - 100 | 1.2171 | 1.2071 | 1.2082 | 1.3 | 1.2062 | 1.1 | 1.2177 | -0.7 | - |
| SDR† | - | 1.44648 | - | - | - | - | - | - | - | - | - | - | - |
| **Americas** | | | | | | | | | | | | | |
| Argentina | (Peso) | 0.9987 | -0.0002 | 986 - 987 | 0.9988 | 0.9986 | - | - | - | - | - | - | - |
| Brazil | (Cr) | 2646.99 | - | 698 - 700 | 2647.03 | 2646.95 | - | - | - | - | - | - | - |
| Canada | (C$) | 1.3829 | -0.0036 | 826 - 831 | 1.3860 | 1.3815 | 1.3847 | -1.6 | 1.3893 | -1.9 | 1.4132 | -2.2 | 82.3 |
| Mexico | (New Peso) | 3.3905 | - | 880 - 930 | 3.3930 | 3.3850 | 3.3916 | -0.4 | 3.3933 | -0.3 | 3.4007 | -0.3 | - |
| USA | ($) | - | - | - | - | - | - | - | - | - | - | - | *97.5* |
| **Pacific/Middle East/Africa** | | | | | | | | | | | | | |
| Australia | (A$) | 1.3817 | -0.0017 | 812 - 822 | 1.3899 | 1.3780 | 1.382 | -0.3 | 1.3821 | -0.1 | 1.3858 | -0.3 | 85.7 |
| *Hong Kong* | (HK$) | *7.7287* | *-0.0002* | *282 - 292* | 7.7292 | 7.7282 | 7.7282 | *0.1* | *7.7307* | *-0.1* | 7.7449 | -0.2 | - |
| India | (Rs) | 31.3700 | +0.0012 | 675 - 725 | 31.3725 | 31.3675 | 31.45 | -3.1 | 31.595 | -2.9 | - | - | - |
| Japan | (Y) | 98.6750 | -1.535 | 500 - 000 | 99.9800 | 98.6500 | 98.47 | 2.5 | 98 | 2.7 | 96.45 | 3.3 | 149.4 |
| Malaysia | (M$) | 2.6049 | +0.0067 | 044 - 054 | 2.6065 | 2.5963 | 2.5974 | 3.5 | 2.5939 | 1.7 | 2.6249 | -0.8 | - |
| New Zealand | (NZ$) | 1.6865 | -0.0017 | 858 - 872 | 1.6935 | 1.6858 | 1.6883 | -1.3 | 1.6929 | -1.5 | 1.7146 | -1.7 | - |
| Philippines | (Peso) | 27.0000 | - | 000 - 000 | 27.2000 | 26.8000 | - | - | - | - | - | - | - |
| Saudi Arabia | (SR) | 3.7504 | - | 502 - 505 | 3.7505 | 3.7502 | 3.751 | -0.2 | 3.753 | -0.3 | 3.7657 | -0.4 | - |
| Singapore | (S$) | 1.5232 | -0.0016 | 229 - 234 | 1.5255 | 1.5229 | 1.5224 | 0.6 | 1.5221 | 0.3 | 1.5242 | -0.1 | - |
| S Africa (Com.) | (R) | 3.6445 | +0.005 | 430 - 460 | 3.6505 | 3.6233 | 3.66 | -5.1 | 3.6883 | -4.8 | 3.765 | -3.3 | - |
| S Africa (Fin.) | (R) | 4.7550 | +0.005 | 450 - 650 | 4.7750 | 4.7450 | 4.7887 | -8.5 | 4.8475 | -7.8 | - | - | - |
| South Korea | (Won) | 805.250 | -0.9 | 200 - 300 | 806.400 | 806.200 | 808.25 | -4.5 | 811.75 | -3.2 | 830.25 | -3.1 | - |
| Taiwan | (T$) | 26.8728 | -0.0502 | 655 - 800 | 26.9115 | 26.8655 | 26.8926 | -0.9 | 26.9328 | -0.9 | - | - | - |
| Thailand | (Bt) | 25.0200 | -0.02 | 100 - 300 | 25.0300 | 25.0100 | 25.0925 | -3.5 | 25.22 | -3.2 | 25.7 | -2.7 | - |

†SDR rate for Jun 28. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market *but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Jun 28. Base average 1990=100*

## CROSS RATES AND DERIVATIVES

### EXCHANGE CROSS RATES

| *Jun 29* | | BFr | DKr | FFr | DM | I£ | L | Fl | NKr | Es | Pta | SKr | SFr | £ | C$ | $ | Y | Ecu |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Belgium | (BFr) | 100 | 19.05 | 16.65 | 4.854 | 2.005 | 4809 | 5.443 | 21.14 | 498.9 | 398.8 | 23.42 | 4.087 | 1.983 | 4.242 | 3.068 | 302.6 | 2.536 |
| Denmark | (DKr) | 52.49 | 10 | 8.741 | 2.548 | 1.052 | 2524 | 2.857 | 11.10 | 261.9 | 209.3 | 12.29 | 2.145 | 1.041 | 2.227 | 1.610 | 158.8 | 1.331 |
| France | (FFr) | 60.06 | 11.44 | 10 | 2.915 | 1.204 | 2888 | 3.269 | 12.70 | 299.6 | 239.5 | 14.06 | 2.454 | 1.191 | 2.547 | 1.842 | 181.7 | 1.523 |
| Germany | (DM) | 20.60 | 3.924 | 3.430 | 1 | 0.413 | 990.6 | 1.121 | 4.355 | 102.8 | 82.15 | 4.824 | 0.842 | 0.408 | 0.874 | 0.632 | 62.34 | 0.522 |
| *Ireland* | *(I£)* | *49.88* | *9.502* | *8.306* | *2.421* | *1* | *2399* | *2.715* | *10.54* | *248.9* | *198.9* | *11.68* | *2.039* | *0.989* | *2.116* | *1.530* | *150.9* | *1.265* |
| Italy | (L) | 2.080 | 0.396 | 0.346 | 0.101 | 0.042 | 100. | 0.113 | 0.440 | 10.38 | 8.293 | 0.487 | 0.085 | 0.041 | 0.088 | 0.064 | 6.293 | 0.053 |
| Netherlands | (Fl) | 18.37 | 3.500 | 3.059 | 0.892 | 0.368 | 883.4 | 1 | 3.883 | 91.66 | 73.26 | 4.302 | 0.751 | 0.364 | 0.779 | 0.564 | 55.59 | 0.466 |
| Norway | (NKr) | 47.31 | 9.012 | 7.677 | 2.296 | 0.948 | 2275 | 2.575 | 10 | 236.0 | 188.6 | 11.08 | 1.933 | 0.938 | 2.007 | 1.451 | 143.2 | 1.200 |
| Portugal | (Es) | 20.04 | 3.816 | 3.337 | 0.973 | 0.402 | 963.8 | 1.091 | 4.237 | 100. | 79.93 | 4.694 | 0.819 | 0.397 | 0.850 | 0.615 | 60.65 | 0.508 |
| Spain | (Pta) | 25.08 | 4.777 | 4.176 | 1.217 | 0.503 | 1206 | 1.365 | 5.301 | 125.1 | 100. | 5.873 | 1.025 | 0.497 | 1.064 | 0.769 | 75.88 | 0.636 |
| Sweden | (SKr) | 42.70 | 8.135 | 7.110 | 2.073 | 0.856 | 2053 | 2.324 | 9.028 | 213.0 | 170.3 | 10 | 1.745 | 0.847 | 1.811 | 1.310 | 129.2 | 1.083 |
| Switzerland | (SFr) | 24.47 | 4.661 | 4.074 | 1.188 | 0.491 | 1177 | 1.332 | 5.172 | 122.1 | 97.57 | 5.730 | 1 | 0.485 | 1.038 | 0.751 | 74.04 | 0.621 |
| UK | (£) | 50.43 | 9.607 | 8.397 | 2.448 | 1.011 | 2425 | 2.745 | 10.66 | 251.6 | 201.1 | 11.81 | 2.061 | 1 | 2.139 | 1.547 | 152.6 | 1.279 |
| Canada | (C$) | 23.58 | 4.491 | 3.926 | 1.144 | 0.473 | 1134 | 1.283 | 4.984 | 117.6 | 94.02 | 5.521 | 0.964 | 0.468 | 1 | 0.723 | 71.34 | 0.598 |
| US | ($) | 32.60 | 6.210 | 5.428 | 1.582 | 0.654 | 1568 | 1.774 | 6.891 | 162.6 | 130.0 | 7.634 | 1.332 | 0.646 | 1.383 | 1 | 98.64 | 0.827 |
| *Japan* | *(Y)* | *330.5* | *62.96* | *55.03* | *16.04* | *6.625* | *15891* | *17.99* | *69.86* | *1649* | *1318* | *77.39* | *13.51* | *6.553* | *14.02* | *10.14* | *1000.* | *8.381* |
| Ecu | | 39.43 | 7.511 | 6.565 | 1.914 | 0.790 | 1896 | 2.146 | 8.335 | 196.7 | 157.2 | 9.234 | 1.611 | 0.782 | 1.672 | 1.210 | 119.3 | 1 |

Yen per 1,000: Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Escudo, Lira and Peseta per 100.

**■ D-MARK FUTURES** (IMM) DM 125,000 per DM

| | Open | Latest | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Sep | 0.6325 | 0.6327 | -0.0002 | 0.6350 | 0.6296 | 34,600 | 88,462 |
| Dec | 0.6331 | 0.6330 | -0.0005 | 0.6338 | 0.6307 | 697 | 2,857 |
| *Mar* | - | 0.6348 | - | - | - | 1 | 711 |

**■ JAPANESE YEN FUTURES** (IMM) Yen 12.5 per Yen 100

| | Open | Latest | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Sep | 1.0044 | 1.0166 | +0.0101 | 1.0180 | 1.0044 | 21,852 | 61,893 |
| Dec | 1.0180 | 1.0262 | +0.0095 | 1.0262 | 1.0180 | 790 | 3,013 |
| *Mar* | *1.0310* | *1.0310* | *+0.0087* | *1.0310* | *1.0310* | *5* | *857* |

***■ SWISS FRANC FUTURES** (IMM) SFr 125,000 per SFr*

| | Open | Latest | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Sep | 0.7536 | 0.7529 | -0.0013 | 0.7558 | 0.7498 | 18,114 | 50,925 |
| Dec | 0.7546 | 0.7550 | -0.0020 | 0.7556 | 0.7525 | 91 | 895 |
| Mar | - | 0.7586 | - | - | - | 5 | 12 |

***■ STERLING FUTURES** (IMM) £62,500 per £*

| | Open | Latest | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Sep | 1.5500 | 1.5502 | -0.0006 | 1.5544 | 1.5458 | 8,824 | 38,373 |
| *Dec* | *1.5510* | *1.5500* | *+0.0004* | *1.5510* | *1.5466* | *601* | *598* |
| Mar | - | 1.5500 | - | 1.5500 | - | 115 | 132 |

### EMS EUROPEAN CURRENCY UNIT RATES

| *Jun 29* | Ecu cen. rates | Rate against Ecu | Change on day | % +/- from cen. rate | % spread v weakest | Div. Ind. |
|---|---|---|---|---|---|---|
| *Netherlands* | 2.19672 | 2.15516 | -0.00086 | -1.89 | 4.48 | - |
| Ireland | 0.808628 | 0.794045 | +0.000634 | -1.80 | 4.39 | 12 |
| Belgium | 40.2123 | 39.6073 | +0.0092 | -1.50 | 4.07 | 11 |
| *Germany* | *1.94964* | *1.92153* | *-0.00096* | *-1.44* | *4.00* | - |
| France | 6.53883 | 6.59158 | +0.00299 | 0.81 | 1.66 | -7 |
| Denmark | 7.43679 | 7.54870 | +0.00298 | 1.50 | 0.98 | -10 |
| *Portugal* | *192.854* | 197.650 | +0.029 | 2.49 | 0.02 | -17 |
| Spain | 154.250 | 158.113 | -0.279 | 2.50 | 0.00 | -17 |
| NON ERM MEMBERS | | | | | | |
| Greece | 264.513 | 290.249 | +0.049 | 9.73 | -6.58 | - |
| Italy | 1793.19 | 1900.64 | +2.44 | 5.99 | -3.29 | - |
| UK | 0.786749 | 0.783608 | +0.000319 | -0.40 | 2.92 | - |

Ecu central rates set by the European Commission. Currencies are in descending relative strength. *Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate.*
*(17/9/92) Sterling and Italian Lira suspended from ERM. Adjustment calculated by the Financial Times.*

**■ PHILADELPHIA SE £/$ OPTIONS** £31,250 (cents per pound)

| Strike Price | CALLS Jul | Aug | Sep | PUTS Jul | Aug | Sep |
|---|---|---|---|---|---|---|
| *1.475* | 7.21 | 7.34 | *7.55* | - | 0.17 | *0.52* |
| 1.500 | 4.81 | 5.18 | 5.65 | 0.06 | 0.49 | 0.99 |
| 1.525 | 2.66 | 3.33 | 3.96 | 0.41 | 1.12 | 1.77 |
| *1.550* | *1.12* | *1.94* | *2.59* | *1.32* | 2.17 | *2.85* |
| 1.575 | 0.34 | 1.01 | 1.62 | 2.98 | 3.68 | 4.34 |
| 1.600 | 0.05 | 0.46 | 0.94 | 5.19 | 5.61 | 6.13 |

Previous day's vol., Calls 33,658 Puts 17,540 . Prev. day's open int., Calls 536,271 Puts 459,873

## WORLD INTEREST RATES

### MONEY RATES

| June 29 | Over night | One month | Three mths | Six mths | One year | Lomb. inter. | Dis. rate | Repo rate |
|---|---|---|---|---|---|---|---|---|
| Belgium | 5⅛ | 5¼ | 5½ | 5¾ | 6$\frac{1}{16}$ | 7.40 | 4.50 | - |
| week ago | 5⅛ | 5¼ | 5⅝ | 5⅞ | 6⅛ | 7.40 | 4.50 | - |
| France | 5⅜ | 5$\frac{11}{16}$ | 5⅝ | 5¾ | *6$\frac{1}{16}$* | *5.20* | - | *6.75* |
| week ago | 5½ | 5$\frac{11}{16}$ | 5⅝ | 5¾ | 6⅛ | 5.30 | - | 6.75 |
| Germany | 5.88 | 4.95 | 4.95 | 4.96 | 5.13 | 6.00 | 4.50 | 5.05 |
| week ago | 5.00 | 4.95 | *5.00* | 5.00 | 5.18 | *6.00* | 4.50 | 5.05 |
| Ireland | 5¾ | 5$\frac{11}{16}$ | 5⅝ | 6$\frac{1}{16}$ | 6¼ | - | - | 6.25 |

***■ THREE MONTH EUROMARK FUTURES** (LIFFE)* DM1m points of 100%*

| | Open | Sett price | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Sep | 95.09 | *95.13* | +0.03 | *95.13* | 95.09 | *16746* | *194768* |
| Dec | 94.87 | 94.94 | +0.06 | 94.95 | 94.86 | 26850 | 205616 |
| Mar | 94.60 | 94.67 | +0.06 | 94.67 | 94.56 | 14951 | 190918 |
| Jun | *94.25* | *94.35* | *+0.09* | 94.35 | *94.23* | *11792* | 102452 |

**■ THREE MONTH EUROLIRA INT.RATE FUTURES** (LIFFE) L1000m points of 100%

| | Open | Sett price | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Sep | 91.50 | 91.56 | - | 91.59 | 91.47 | 8133 | 40337 |

## UK INTEREST RATES

### LONDON MONEY RATES

| Jun 29 | Over-night | 7 days notice | One month | Three months | Six months | One year |
|---|---|---|---|---|---|---|
| Interbank Sterling | 5 - 4 | 5 - 4¾ | 5$\frac{1}{16}$ - 4$\frac{15}{16}$ | 5$\frac{3}{16}$ - 5$\frac{1}{16}$ | 5½ - 5⅜ | 6¼ - 6⅛ |
| Sterling CDs | - | - | 4$\frac{31}{32}$ - 4$\frac{29}{32}$ | 5⅛ - 5$\frac{1}{16}$ | 5⅜ - 5¼ | 6$\frac{1}{16}$ - 5$\frac{15}{16}$ |
| Treasury Bills | - | - | 4$\frac{27}{32}$ - 4$\frac{25}{32}$ | 4$\frac{31}{32}$ - 4$\frac{29}{32}$ | - | - |
| Bank Bills | - | - | 4$\frac{29}{32}$ - 4$\frac{27}{32}$ | 5 - 4$\frac{15}{16}$ | 5$\frac{7}{16}$ - 5¼ | - |
| Local authority deps. | 5¼ - 5⅛ | 4$\frac{15}{16}$ - 4$\frac{11}{16}$ | 5 - 4$\frac{15}{16}$ | 5⅛ - 5$\frac{1}{16}$ | 5⅜ - 5$\frac{5}{16}$ | 6$\frac{1}{16}$ - 5$\frac{15}{16}$ |
| Discount Market deps | 4¾ - 4 | 4$\frac{11}{16}$ - 4$\frac{11}{16}$ | - | - | - | - |

### BASE LENDING RATES

| | % |
|---|---|
| Adam & Company | 5.25 |
| Allied Trust Bank | 5.25 |
| AIB Bank | 5.25 |
| ●Henry Ansbacher | 5.25 |
| Bank of Baroda | 5.25 |
| Banco Bilbao Vizcaya | 5.25 |
| Bank of Cyprus | 5.25 |
| Bank of Ireland | 5.25 |
| Bank of India | 5.25 |
| Bank of Scotland | 5.25 |
| Barclays Bank | 5.25 |
| Brit Bk of Mid East | 5.25 |
| ●Brown Shipley & Co Ltd | 5.25 |
| CL Bank Nederland | 5.25 |
| Citibank NA | 5.25 |
| Clydesdale Bank | 5.25 |
| The Co-operative Bank | 5.25 |
| Coutts & Co | 5.25 |
| Credit Lyonnais | 5.25 |
| Cyprus Popular Bank | 5.25 |
| Duncan Lawrie | 5.25 |
| Exeter Bank Limited | 6.25 |
| Financial & Gen Bank | 6 |
| ●Robert Fleming & Co | 5.25 |
| Girobank | 5.25 |
| ●Guinness Mahon | 5.25 |
| Habib Bank AG Zurich | 5.25 |
| ●Hambros Bank | 5.25 |
| Heritable & Gen Inv Bk | 5.25 |
| ●Hill Samuel | 5.25 |
| C. Hoare & Co | 5.25 |
| Hongkong & Shanghai | 5.25 |
| Julian Hodge Bank | 5.25 |
| ●Leopold Joseph & Sons | 5.25 |
| Lloyds Bank | 5.25 |
| Meghraj Bank Ltd | 5.25 |
| Midland Bank | 5.25 |
| * *Mount Banking* | *6* |
| NatWestminster | 5.25 |
| ●Rea Brothers | 5.25 |
| * Roxburghe Guarantee Corporation Limited is no longer authorised as a banking institution. | 6 |
| Royal Bk of Scotland | 5.25 |
| ●Smith & Williamson Secs | 5.25 |
| TSB | 5.25 |
| ●United Bk of Kuwait | 5.25 |
| Unity Trust Bank Plc | 5.25 |
| Western Trust | 5.25 |
| Whiteaway Laidlaw | 5.25 |
| Yorkshire Bank | 5.25 |

● Members of British *Merchant Banking &* Securities Houses Association
* *In administration*

# MONEY MARKET FUNDS

## Money Market Trust Funds

## Money Market Bank Accounts

# WORLD STOCK MARKETS

## EUROPE

AUSTRIA (Jun 29 / Sch)

BELGIUM/LUXEMBOURG (Jun 29 / Frs.)

DENMARK (Jun 29 / Kr)

FINLAND (Jun 29 / Mka)

FRANCE (Jun 29 / Frs.)

GERMANY (Jun 29 / Dm.)

ITALY (Jun 29 / Lire)

NETHERLANDS (Jun 29 / Fls.)

NORWAY (Jun 29 / Kroner)

SPAIN (Jun 29 / Pts.)

SWEDEN (Jun 29 / Kronor)

SWITZERLAND (Jun 29 / Frs.)

## PACIFIC

JAPAN (Jun 29 / Yen)

AUSTRALIA (Jun 29 / Aus$)

HONG KONG (Jun 29 / H.K.$)

MALAYSIA (Jun 29 / MYR)

SINGAPORE (Jun 29 / S$)

## NORTH AMERICA

CANADA

TORONTO (Jun 29 / Can $) 3:45 pm

MONTREAL (Jun 29 / Can $) 3:30 pm

## AFRICA

SOUTH AFRICA (Jun 29 / Rand)

FT FREE ANNUAL REPORTS SERVICE

### TOKYO - MOST ACTIVE STOCKS: Wednesday, June 29, 1994

| | Stocks Traded | Closing Prices | Change on day | | Stocks Traded | Closing Prices | Change on day |
|---|---|---|---|---|---|---|---|
| Nippon Comsys | 5.9m | 1,530 | +30 | Mitsubishi Oil | 3.9m | 1,040 | -10 |
| Hitachi | 5.3m | 1,030 | +10 | Sumitomo Mtl Ind | 3.8m | 296 | -1 |
| Ushio | 4.4m | 1,150 | +50 | Takuma Co | 3.6m | 1,900 | +80 |
| Mitsubishi Hvy | 4.0m | 787 | -3 | Kobe Steel | 3.4m | 316 | +1 |
| Nippon Steel | 4.0m | 353 | | Mitsui Co | 3.2m | 836 | +14 |

## INDICES

## US INDICES

| Dow Jones | Jun 28 | Jun 27 | Jun 24 | 1994 High | 1994 Low | Since compilation High | Since compilation Low |
|---|---|---|---|---|---|---|---|
| Industrials | 3669.64 | 3685.50 | 3636.94 | 3978.36 (31/1) | 3593.35 (4/4) | 3978.36 (31/1/94) | 41.22 (2/7/32) |
| Home Bonds | 97.36 | 97.52 | 97.80 | [illegible] (21/1) | 96.43 (13/5) | [illegible] (15/10/93) | 54.99 (1/10/81) |
| Transport | 1593.48 | 1599.88 | 1580.94 | 1862.29 (2/2) | 1546.02 (20/4) | 1862.29 (2/2/94) | 12.32 (8/7/32) |
| Utilities | 177.10 | 178.03 | 176.71 | 227.86 (3/1) | 176.71 (24/6) | [illegible] (31/8/93) | 10.50 (8/4/32) |

DJ Ind. Day's high 3705.58 (3694.89) Low 3630.47 (3603.92) (Theoretical) Day's high 3693.92 (3687.12) Low 3639.85 (3610.40) (Actual)

| Standard and Poors | Jun 28 | Jun 27 | Jun 24 | 1994 High | 1994 Low | Since compilation High | Since compilation Low |
|---|---|---|---|---|---|---|---|
| Composite ‡ | 446.07 | 447.31 | 442.80 | 482.00 (2/2) | 438.92 (4/4) | 482.00 (2/2/94) | 4.40 (1/6/32) |
| Industrials | 519.62 | 520.02 | 515.36 | [illegible] (2/2) | 510.05 (21/4) | [illegible] (2/2/94) | 3.62 (21/6/32) |
| Financial | 44.42 | 44.71 | 44.15 | [illegible] (14/6) | 41.38 (4/4) | [illegible] (25/8/93) | 8.64 (1/10/74) |
| NYSE Comp. | 245.80 | 246.45 | 244.55 | 267.71 (2/2) | 243.14 (4/4) | 267.71 (2/2/94) | 4.46 (25/4/42) |
| Amex Mkt Val | 422.67 | 425.45 | 428.30 | [illegible] (2/2) | 422.67 (28/6) | [illegible] (2/2/94) | 28.31 (9/12/72) |
| NASDAQ Comp | 702.05 | 702.68 | 693.79 | [illegible] (18/3) | 693.79 (24/6) | [illegible] (18/3/94) | 54.87 (31/10/72) |

### RATIOS

| | Jun 24 | Jun 17 | Jun 10 | Year ago |
|---|---|---|---|---|
| Dow Jones Ind. Div. Yield | 2.75 | 2.65 | 2.68 | 2.95 |
| | Jun 22 | Jun 15 | Jun 8 | Year ago |
| S & P Ind. Div. yield | 2.46 | 2.42 | 2.44 | 2.51 |
| S & P Ind. P/E ratio | 23.16 | 23.51 | 23.31 | 25.42 |

### STANDARD AND POORS 500 INDEX FUTURES $500 times index

| | Open | Latest | Change | High | Low | Est. vol. | Open int. |
|---|---|---|---|---|---|---|---|
| Sep | 446.95 | 447.45 | +0.40 | 447.50 | 445.30 | 90,661 | 197,331 |
| Dec | - | 449.80 | - | - | - | 1,071 | 10,522 |
| Mar | - | 453.05 | - | - | - | 81 | 1,958 |

Open interest figures are for previous day.

### NEW YORK ACTIVE STOCKS

### TRADING ACTIVITY

### CAC 40 STOCK INDEX FUTURES (MATIF)

| | Open | Sett price | Change | High | Low | Est. vol. | Open int. |
|---|---|---|---|---|---|---|---|
| Jun | 1929.0 | 1940.0 | +18.0 | 1942.0 | 1921.0 | 39,681 | 24,596 |
| Jul | 1921.5 | 1936.0 | +15.5 | 1937.0 | 1939.5 | [illegible] | 20,750 |
| Sep | 1941.5 | 1952.0 | +16.0 | 1954.0 | 1937.0 | 1,288 | 24,722 |

Open interest figures for previous day.

| | Jun 28 | Jun 27 | Jun 24 |
|---|---|---|---|
| Issues Traded | 2,815 | 2,811 | 2,798 |
| Rises | 771 | 1,065 | 382 |
| Falls | 1,355 | 1,037 | 1,892 |
| Unchanged | 689 | 689 | 524 |
| New Highs | 10 | 5 | 7 |
| New Lows | 130 | 161 | 182 |

~ Sat Jun 25 : Taiwan Weighted Price 5903.38; Korea Comp Ex 910.98. Base values of all indices are 100 except Australia All Ordinary and Mining – 500; Austria Traded, BEL20, HEX Gen., MIB Gen., SBF250, CAC40, Euro Top-100, ISEQ Overall, Toronto Comp./Metals & Minerals and DAX – all 1,000; JSE Gold – 255.7; JSE 20 Industrials – 264.3; NYSE All Common – 50 and Standard and Poor's – 10; § Montreal. ♦ Toronto. (c) Closed. (u) Unavailable. † IBIS/DAX after-hours index: Jun 28 - 2042.45 +20.50.

† Correction. *Calculated at 15.00 GMT. ⊕ Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♦ The DJ Ind. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ¥ Subject to official recalculation.

*5:45 pm June 29*

# NEW YORK STOCK EXCHANGE COMPOSITE PRICES

| 1994 High | Low | Stock | Div | Yld. % | P/E | Sls 100s | High | Low | Close Quote | Chng Prev. Close |
|---|---|---|---|---|---|---|---|---|---|---|
| 17⅞ | 13⅝ | AAR | 0.48 | 3.5 | 458 | 247 | 13⅞ | 13¾ | 13¾ | |
| 16⅞ | 13 | A L Labs A x | 0.18 | 1.3 | 31 | 97 | 13⅝ | 13⅜ | 13½ | +⅛ |
| 69 | 57⅞ | AMP | 1.68 | 2.4 | 24 | 6511 | u69½ | 67⅞ | 69⅜ | +1⅝ |
| 72¾ | 52⅛ | AMR | | | 30 | 6010 | 59⅝ | 58 | 59½ | +1½ |
| 5 | 3⅝ | ARX | | | 13 | 73 | 3⅞ | d3⅝ | 3⅞ | +¼ |
| 56⅛ | 38⅝ | ASA | 2.00 | 4.5 | 29 | 254 | 44⅞ | 44¼ | 44⅞ | +⅛ |
| 31⅞ | 25⅞ | AbbtL | 0.76 | 2.5 | 17 | 8284 | 30⅛ | 29½ | 29⅞ | +¼ |
| 13¾ | 11⅜ | Abitibi Pr | 0.50 | 4.2 | 8 | 14 | 12 | 11¾ | 12 | +¼ |
| 23⅝ | 17¼ | ABM Ind | 0.52 | 2.5 | | 183 | 20¾ | 20⅝ | 20⅝ | -⅛ |
| 13¾ | 11⅛ | Acptncoln | | | 24 | 35 | 13¾ | 13¼ | 13⅜ | +¼ |
| 31 | 23⅞ | ACE Ltd | 0.44 | 1.8 | 3 | 1040 | 24½ | d23¼ | 24 | -¾ |
| 12½ | 10⅛ | ACM Gvt In x | 1.09 | 10.0 | | 349 | 11⅛ | 11 | 11 | |
| 10⅛ | 7⅞ | ACM GvOpp | 0.80 | 9.6 | | 9 | 8¼ | 8¼ | 8¼ | |
| 10⅝ | 8⅛ | ACM Gvt Sp | 0.96 | 11.5 | | 457 | 8⅜ | d8⅛ | 8⅜ | +¼ |
| 12 | 9⅛ | ACM Gvt Sc | 1.09 | 11.2 | | 223 | 9¾ | 9⅝ | 9¾ | +⅛ |
| 11¾ | 8¾ | ACM Man | 1.08 | 11.1 | | 113 | 9¾ | 9½ | 9¾ | +¼ |
| 9¼ | 8 | ACM Managd | 0.72 | 8.7 | | 188 | 8⅜ | 8¼ | 8¼ | |
| 15½ | 8¾ | AcmeCltv | 0.44 | 4.2 | 12 | 80 | 10⅝ | 10½ | 10½ | |
| 9¼ | 6½ | Acme Elect | | | 5 | 282 | 8½ | 8 | 8⅛ | +⅛ |
| 28¾ | 23 | Acordia | 0.60 | 2.1 | 14 | 52 | 28¾ | 28¼ | 28¾ | +¼ |
| 9⅞ | 5¾ | Actava | 0.36 | 4.1 | 2 | 153 | 8¾ | 8⅝ | 8¾ | +⅛ |
| 15⅝ | 11¼ | Acuson | | | 101 | 314 | 13¼ | 13¼ | 13¼ | |
| 18⅜ | 16½ | Adams Expr | 0.48 | 2.8 | 0 | 174 | 17¼ | 17 | 17¼ | +⅛ |
| 64 | 48½ | Ad Micro | 3.00 | 5.5 | | 23 | 55¼ | 54¾ | 54¾ | |
| 31¾ | 16¾ | AdvMic | 3.00 | 11.3 | 11 | 12747 | 26⅝ | 25⅞ | 26½ | +⅜ |
| 6⅞ | 5 | Advest Grp | 0.16 | 3.0 | 8 | 120 | 5½ | 5¼ | 5⅜ | +⅛ |
| 20 | 15⅞ | Advo Inc x | 0.10 | 0.6 | 105 | 3274 | 16⅛ | d15⅞ | 15⅞ | |
| 57¼ | 49⅜ | Aegon ADR | 2.95 | 5.6 | 11 | 55 | 53⅛ | 52⅞ | 52⅝ | -1 |
| 65¾ | 49¾ | AetnaL | 2.76 | 4.9 | 8 | 1670 | 56½ | 56 | 56 | -⅛ |
| 34⅞ | 25¼ | Aflac | 0.46 | 1.4 | 14 | 1311 | 33 | 32½ | 32½ | -¼ |
| 30¼ | 16⅛ | Ahmnsn | 0.88 | 4.7 | 13 | 3736 | 19¼ | 18⅝ | 18⅝ | -⅛ |



Continued on next page

# NYSE COMPOSITE PRICES

4pm close June 29

Continued from previous page

# NASDAQ NATIONAL MARKET

5:45 pm June 29

# AMEX COMPOSITE PRICES

5:45 pm June 29

AMERICA

# Dow recovers despite new low for dollar

## Wall Street

*US stocks bounced higher yesterday morning, even though the dollar touched a fresh low against the yen, writes Frank McGurty in New York.*

By 1 pm, the Dow Jones Industrial Average was 19.10 ahead at 3,688.74, while the more broadly based Standard & Poor's 500 gained 3.24 at 449.31. NYSE volume was light, with only 154m shares exchanged by early afternoon.

Investors were generally inactive, with many already looking ahead to the long Independence Day weekend and the Federal Reserve policy-making session early next week. In the secondary markets, the American SE composite was 1.29 better at 423.96, and the Nasdaq composite up 5.27 at 707.32.

At the opening, stocks picked up where they had left off in the previous session. Share prices moved steadily higher during the morning, building on Tuesday's late rally, which had whittled down a 45-point deficit to just 15 by the close. The dollar remained a concern but stocks appeared to have broken step with its fluctuations.

Fixed interest rate traders also accepted the dollar's latest stumble with equanimity, giving bonds a breather after a week of skittishness. The benchmark 30-year government security inched forward in spite of an upward revision of the government's estimate of first-quarter gross domestic product to 3.4 per cent. Economists were expecting no change in the earlier estimate of 3.0 per cent.

The lull left an opening for investors looking to take advantage for bargain prices created by the recent wave of selling. Only two of the 30 Dow industrials – Caterpillar and IBM – were down slightly as the afternoon commenced.

Few stocks showed big gains: Kodak was $1 better at $48⅞ and Sears added $1 at $47⅞.

The banking sector was among the most buoyant as stocks tracked the course laid out by bonds. First Interstate climbed $1¼ to $77¾ and Wells Fargo appreciated $1 to $155. Citicorp firmed $1 to $40⅛ as Kidder Peabody initiated coverage of the issue with an "outperform" rating.

On the Nasdaq, Novell jumped $1⅛ to $17¾ after at least two securities houses – Wertheim Schroder and UBS – lifted their ratings on the issue. Earlier, Mr Bob Frankenberg, Novell's chief executive, said the company saw growth opportunities now that its merger with Wordperfect was complete.

Elsewhere, Snapple Beverages was marked up $1¼ to $21½ after the company told analysts of its success in the fast-growing fruit juice market.

## Canada

Toronto was firm at midday as investors began to look ahead to the release of second-quarter earnings results next month. The TSE 300 composite index moved ahead 11.65 to 4,008.45 in volume of 27.2m shares.

Advancing issues outpaced declines by 282 to 215, with 272 stocks unchanged.

All but two of the TSE's 14 sub-indices were stronger, led by sharp gains in transportation, pipelines and the paper and forest products sector.

Forestry rose 1.1 per cent, as Fletcher Challenge Canada class "A" and International Forest Products class "A" both climbed C$⅛, to C$17¼ and C$14¾ respectively.

## Mexico

Mexican shares opened higher, helped by reports that Mr Alfredo Harp Helú, the kidnapped financier, had been released by his kidnappers, as well as by gains on Wall Street.

The IPC index was up 24.2, or 1.1 per cent, at 2,256.98.

Telmex ADRs in New York had added $⅜ at $56⅜, while locally the "L" shares had risen 1.7 per cent and the "A" series 1.3 per cent.

## Brazil

Equities in São Paulo had gained a further 5.5 per cent in local currency terms by midsession as domestic investors in particular took positions before the introduction of the new currency, the real, tomorrow.

The Bovespa index was 1,949 stronger at 37,585 in turnover of $143.8m.

The financial markets will be closed tomorrow as the changeover in the currency takes place.

# Johannesburg unable to make fresh headway

South African shares slipped further, ignoring the stronger showing in Europe and Wall Street's firmer opening. Trading was very quiet, with the market still nervous that inflationary fears could lead to higher foreign interest rates.

The overall index fell 66 to 5,421 as industrial shares traded lower and a softer bullion price took gold shares down. Industrials finished 77 off at 6,281 and golds slipped 16 to 2,068.

Among key issues, De Beers, the diamond producer, retreated R2 to R107.50 in spite of the release of first-half sales figures from its Central Selling Organisation which were only slightly below expectations. CSO sales were up 1.5 per cent to $2.58bn in the first six months.

Anglo American, the mining conglomerate, weakened R4.25 to R226, but Barlows, the heavy engineering group, was unchanged at R34. South African Breweries fell R4 to R85.

**EMERGING MARKETS: IFC WEEKLY INVESTABLE PRICE INDICES**

| Market | No. of stocks | Dollar terms June 24 1994 | % Change over week | % Change on Dec '93 | Local currency terms June 24 1994 | % Change over week | % Change on Dec '93 |
|---|---|---|---|---|---|---|---|
| Latin America | (209) | 571.01 | -6.7 | -12.2 | | | |
| Argentina | (25) | 850.02 | -4.5 | -14.5 | 521,596.29 | -4.5 | -14.5 |
| Brazil | (57) | 234.31 | -11.4 | +0.7 | 811,934,440.6 | -2.6 | +699.0 |
| Chile | (25) | 658.21 | -2.6 | +19.3 | 1,109.02 | -2.7 | +16.3 |
| Colombia[1] | (11) | 934.28 | +0.1 | +44.9 | 1,368.28 | -0.7 | +47.6 |
| Mexico | (69) | 792.52 | -5.8 | -21.3 | 1,158.88 | -5.2 | -14.1 |
| Peru[2] | (11) | 139.63 | -6.9 | +15.5 | 186.99 | -6.5 | +17.6 |
| Venezuela[3] | (12) | 476.19 | -13.4 | -19.5 | 2,156.77 | +0.2 | +51.7 |
| Asia | (557) | 244.22 | -2.5 | -16.1 | | | |
| China[4] | (18) | 89.22 | -5.4 | -40.2 | 97.58 | -5.5 | -40.5 |
| South Korea[5] | (156) | 127.48 | +0.8 | +7.9 | 133.53 | +1.2 | +7.8 |
| Philippines | (18) | 283.92 | -2.2 | -16.6 | 363.47 | -2.4 | -18.2 |
| Taiwan, China[6] | (90) | 131.79 | -4.1 | -2.5 | 133.83 | -4.1 | +0.0 |
| India[7] | (76) | 134.83 | -0.7 | +15.8 | 149.10 | -0.7 | +15.8 |
| Indonesia[8] | (37) | 100.99 | -1.3 | -19.0 | 118.90 | -1.3 | -16.5 |
| Malaysia | (105) | 268.45 | -2.7 | -20.8 | 256.54 | -2.8 | -23.9 |
| Pakistan[9] | (15) | 394.89 | +4.0 | +1.8 | 548.93 | +4.0 | +3.9 |
| Sri Lanka[10] | (5) | 176.66 | +9.8 | -0.3 | 189.58 | +9.4 | -0.7 |
| Thailand | (55) | 362.62 | -6.0 | -24.1 | 361.69 | -6.2 | -25.1 |
| Euro/Mid East | (125) | 106.66 | -2.3 | -37.0 | | | |
| Greece | (25) | 216.16 | +2.2 | -5.1 | 350.67 | +0.7 | -8.7 |
| Hungary[11] | (5) | 182.63 | +1.3 | +9.6 | 223.35 | -0.5 | +10.6 |
| Jordan | (13) | 161.46 | +0.2 | -2.5 | 230.17 | -0.9 | -3.9 |
| Poland[12] | (12) | 462.00 | -11.2 | -43.5 | 658.11 | -11.8 | -40.4 |
| Portugal | (25) | 110.90 | +1.4 | -2.5 | 124.87 | -0.9 | -9.8 |
| Turkey[13] | (40) | 101.34 | -5.8 | -52.3 | 1,511.04 | -3.6 | +3.9 |
| Zimbabwe[14] | (5) | 276.30 | -1.1 | +36.7 | 325.71 | -1.0 | +52.5 |
| Composite | (891) | 298.21 | -4.5 | -15.9 | | | |

*Indices are calculated at end-week, and weekly changes are percentage movement from the previous Friday. Base date: Dec 1988=100 except those noted which are: (1)Feb 1 1991; (2)Dec 31 1992; (3)Jan 5 1990; (4)Dec 31 1992; (5)Jan 3 1992; (6)Jan 4 1991; (7)Nov 5 1992; (8)Sep 28 1990; (9)Mar 1 1991; (10) Dec 31 1992; (11)Dec 31 1992; (12)Dec 31 1992; (13)Aug 4 1989; (14)July 2 1993.*

**Pakistan has remained relatively immune to the choppy performances that have characterised emerging markets so far this year. Since the budget announcement earlier this month the KSE 100 index has gained some 5 per cent, a fact which has surprised some analysts. BMA Capital Management, based in Karachi, says the market's strength has come in spite of a negative reaction to the budget proposals from the business community.**

**The government of Prime Minister Benazir Bhutto is attempting to control inflation, aiming for a target in 1994-95 of 7 per cent, against the current level of around 15 per cent, and reduce the budget deficit through a package of measures which includes a general sales tax on consumer durables.**

**BMA says that since business conditions and corporate earnings forecasts are improving, the equity market should continue to advance: "An optimistic view of corporate profitability should envelop investor consciousness between the fourth quarter of 1994 and the first quarter of 1995, as signs of an economic recovery become more evident through the haze."**

EUROPE

# Modified approach to cyclicals mooted

*As investors began counting the costs of their commitments at the end of the second quarter, there were more murmurings in favour of bond markets yesterday, writes Our Markets Staff.*

In equities, there were arguments for a modified approach to cyclicals, already voiced by Merrill Lynch in London. Mr Bert Jansen, European strategist at Paribas Capital Markets, said that of 56 major cyclicals, 32 were overvalued and 24 undervalued; and that implied prices for Thyssen, Pechiney, Acerinox, Peugeot and Preussag, based on peak earnings forecasts, and peak p/e ratios, were almost double their present level.

FRANKFURT, according to some reports, mounted a cynical exercise to lift the Dax index before the end of June. Traders noted that an illiquid Dax stock, Lufthasa, rose DM8.50, or 4.6 per cent, to DM192.50, while Deutsche Bank gained only DM1.70, or 0.25 per cent, at DM679.50 as the Dax itself closed 28.04 higher at 2,046.30.

Mr Hans-Peter Wodniok, head of research at Robert Fleming in Frankfurt, could not see the sense of this. "I strongly doubt whether the banks have been active," he said, "since they have been losing significant money on the bond market." Foreigners continued to be net sellers, so insurance companies, by deduction, were the most likely buyers – and insurance funds would not worry about the level of stocks at the end of a given quarter.

Mr Wodniok noted that good quality German cyclicals had outperformed over the past two weeks. Among them, Preussag rose another DM10 to DM447. Turnover increased from DM7.1bn to DM7.25bn.

PARIS rallied further after Tuesday's promising performance, helped by additional firmness in the bond market. The CAC-40 index put on 10.57 at 1,936.33 but turnover was below FFr3bn.

Hopes were raised that the Bank of France might be encouraged to lower interest rates today following an easing in the German repo, but most analysts considered this unlikely.

Merrill Lynch joined other brokers which have underweighted the French equity market, although it said that it expected the CAC-40 index to target the 2,250 to 2,350 range over the next six months. It favoured cyclicals and was particularly interested in those stocks which had "consumer exposure".

AMSTERDAM finished moderately higher after moving in a narrow range. The AEX index closed 1.08 up at 382.30.

High volume was seen in Philips once again, the shares adding 40 cents at Fl 51.00, while switching was noted in the chemicals sector, DSM rising Fl 2.40 to Fl 127.00 at the expense of Akzo, down Fl 2.00 at Fl 188.80.

KLM continued to benefit, climbing 50 cents to Fl 48.40, bringing its gain on the week so far to 7 per cent, as the group reaped the benefits of a number of positive analysts' notes in recent days.

ZURICH moved ahead in active trade, the SMI index rising 26.8 to 2,631.2, with the market's resilience over the last difficult week adding to the improved sentiment.

Banks remained firm, CS Holding appreciating SFr12 to SFr559, while insurers succumbed to profit-taking.

Chemicals put aside worries about the weak dollar. Ciba bounced SFr25, or 3.2 per cent, higher to SFr805, while Roche certificates also gained SFr25, at SFr6,410.

Holderbank fell SFr14 to SFr875 on a large sell order from one domestic institution. The fall wiped out Tuesday's gain which followed news that the cement group planned a FFr842m offer for a French group.

MILAN continued to play a waiting game in the absence of decisive government action on the budget deficit, and the Comit index lost 2.94 at 698.03 in low turnover. Hopes that the successful privatisation of Ina would provide a spur to trading proved unfounded: the offer closed three days early on Tuesday night.

Montedison gave up an early advance to finish a net L8 lower at L1,495 in spite of its announcement that it had boosted operating profits by 33 per cent in the first five months of the year and expected to cut debt to L9,500bn by the end of the year.

Against the trend, Ferruzzi, the holding company, appreciated L25 to L2,050 ahead of today's shareholder assembly. Some analysts suggested that the company could be poised for a turnround, but others remained doubtful.

COPENHAGEN featured a number of positive corporate stories as turnover climbed from DKr481m to DKr697m, and the KFX index moved up 1.51 to 102.88.

Danske Bank finished DKr10 higher at DKr338, partly on news of an option on a 23 per cent stake in Baltica Forsikring, the insurer, which might open a way to the sale of Danke's existing shareholding.

Danisco was up DKr20 at DKr920 ahead of a progress report due today, and FLS Industries by DKr20 at DKr530 on news of a Polish order worth DKr700m.

*Written and edited by William Cochrane, John Pitt and Michael Morgan*

**FT-SE Actuaries Share Indices** — THE EUROPEAN SERIES

| Jun 29 Hourly changes | Open | 10.30 | 11.00 | 12.00 | 13.00 | 14.00 | 15.00 | Close |
|---|---|---|---|---|---|---|---|---|
| FT-SE Eurotrack 100 | 1331.26 | 1329.84 | 1330.77 | 1331.65 | 1332.64 | 1332.73 | 1330.75 | 1331.90 |
| FT-SE Eurotrack 200 | 1359.48 | 1358.37 | 1360.35 | 1360.75 | 1363.36 | 1362.47 | 1361.28 | 1362.43 |

| | Jun 28 | Jun 27 | Jun 24 | Jun 23 | Jun 22 |
|---|---|---|---|---|---|
| FT-SE Eurotrack 100 | 1327.83 | 1313.43 | 1328.34 | 1336.98 | 1323.00 |
| FT-SE Eurotrack 200 | 1364.58 | 1342.95 | 1354.15 | 1366.22 | 1357.37 |

Base 1000 (26/10/90). High/day: 100 - 1334.19; 200 - 1364.95 Low/day: 100 - 1329.25 200 - 1357.94

ASIA PACIFIC

# Caution over yen's rise leaves Nikkei lower

## Tokyo

*Caution over the yen's rise left the Nikkei 225 average lower on arbitrage selling, writes Emiko Terazono in Tokyo.*

The index lost 158.23 at 20,481.00 after opening at the day's high of 20,559.12 and hitting a low of 20,420.48 in the first hour of trading, just after the yen climbed to a record Y99.50 against the dollar.

Traders said the political situation had little effect on confidence.

Mr Nobuhiro Kaneda, general manager of Daiwa Securities' stock division, said the 20,000 level was likely to be a first floor for the market. He added that domestic institutions had started to buy shares. "Financial institutions, including public funds, bought a total Y50bn on Friday last week and Monday," he said.

Yesterday's activity, however, centred around technical trading by arbitrageurs and volume totalled 317m shares, against 385m. The Topix index of all first section stocks slipped 5.62 to 1,666.62 and the Nikkei 300 eased 0.54 to 303.46. Falls led rises by 648 to 334, with 192 issues unchanged. In London the ISE/Nikkei 50 index shed 6.35 to 1,348.19.

Telecommunication-related stocks gained popularity on hopes of an enlarging portable telephone market. DDI, a telecom group, rose Y330,000 to Y9.53m on the second section. Kyocera, DDI's leading shareholder, gained Y190 at Y7,450.

Nippon Comsys, the telecom engineering company, was the day's most active issue, adding Y30 at Y1,530. Ushio, also a DDI shareholder and involved in technology applicable to the handy-phone, moved forward Y50 to Y1,150.

Banks were lower on arbitrage selling. Bank of Tokyo declined Y40 to Y1,560.

In Osaka, the OSE average dipped 69.32 to 23,633.63 in volume of 15.2m shares. Nintendo, the video game maker, was the most active issue, advancing Y150 to Y7,050.

## Roundup

Window dressing by firms closing half-yearly accounts provided impetus in some of the Pacific Rim markets.

BANGKOK rebounded after falling for seven straight days, the SET index closing 19.84, or 1.6 per cent, up at 1,272.77 in low turnover of Bt3.85bn. Most of the buying came from local funds, which have to calculate net asset values of their unit trusts at the half year.

HONG KONG was easier but recouped almost all its earlier losses ahead of the close on futures related business, with political developments largely ignored. The Hang Seng index ended 33.18 off at 8,640.31, having fallen to 8,461.61 during the morning.

HSBC finished steady at HK$83, Sun Hung Kai Properties fell HK$1.25 to HK$43.25 and Hutchison Whampoa dipped 25 cents to HK$31.25.

SEOUL was spurred ahead by a late round of institutional buying which took the composite index 10.35 ahead to 933.96.

News of the agreement to hold summit talks between the presidents of the two Koreas next month briefly helped the market in the morning. Low-priced construction and trading companies with interests in expanded north-south trade gained momentum.

TAIPEI encountered some demand for industrials, but the mood remained cautious amid expectations that the market's consolidation would continue.

The weighted index closed 58.59, or 1 per cent, firmer at 5,933.15 in T$41.23bn turnover.

SYDNEY edged marginally ahead, with losses in the resources sector offset by gains in industrials. The All Ordinaries index finished 0.7 points higher at 1,975.1 in volume of 273.3m shares.

BHP and CRA each fell 34 cents to A$17.86 and A$17.76 respectively, their lowest levels in six weeks. Western Mining receded 8 cents to A$7.26.

Among banks, NAB closed 18 cents stronger at A$10.86, while Westpac rose 13 cents to A$4.44 after BankWatch said it had assigned Westpac's senior debt at AA-minus.

SINGAPORE closed off lows after late bargain hunting of index stocks emerged. The Straits Times Industrial index lost 9.19 at 2,216.41.

Kim Eng Holdings gained 10 cents at S$2.83 on market expectations of good earnings. Parkway Holdings added 20 cents at S$3.02 on talk of a third hospital being set up in Indonesia and rumours of a listing of its Gleneagles Hospital at the end of this year.

KUALA LUMPUR was helped higher by late buying of blue chips, although the broader market fell in response to Wall Street's drop. The composite index put on 3.19 at 1,010.11.

WELLINGTON gave up much of its early gains to end a quiet and thinly traded session little changed ahead of today's budget. The NZSE-40 Capital index closed 3.16 up at 1,982.27 in volume of NZ$27m.

BOMBAY fell after an early advance, the BSE 30-share index finishing 53.41 down at 4,158.42 ahead of today's end of the account.

ALCATEL ALSTHOM

*At the General Shareholders' Meeting of Alcatel Alsthom, the Paris based telecommunications energy and transport equipment group, held on June 23, 1994, Pierre Suard, Chairman and Chief Executive Officer, made the following remarks regarding the group's future and upcoming challenges:*

## Ordinary and Extraordinary Shareholders' Meeting of June 23, 1994

"As I stated last January, 1994 will be another difficult year, based on our sales expectations for the German and Italian markets, and the general impact of economic conditions on the group's activities. Looking at the volume of orders booked in the first months of 1994 and our commitment to maintaining high levels of research and development expenditures, we continue to forecast net income of 10-20% below the 1993 level."

"This forecast announcement - which I felt was necessary in fairness to our shareholders - had a sharp impact on our share price. The market primarily focused on estimated 1994 earnings while discounting the positive long-term outlook I had also mentioned. Since then, the stock price has remained depressed, under the added pressure of morose market sentiment over interest rate prospects. In addition, recent press commentary on the group has undoubtedly put further pressure on the share price." While noting that the Alcatel CIT case was still in litigation, Pierre Suard firmly denied allegations that the group had engaged in over-billing, issued false invoices, or maintained double accounting systems.

The Chairman reported on the resolution adopted by the Board of Directors regarding this matter at its meeting on June 21, 1994.

The Board of Directors deplored the attacks on the group's Alcatel CIT subsidiary and its management, arising from court findings regarding wrong doings by two of its employees.

The two employees made certain accusations against Alcatel CIT. The Board of Directors noted that the company had provided evidences to the court which totally disprove these charges.

Finally, the Board of Directors unanimously reaffirmed its confidence in its Chairman, Pierre Suard and rejected accusations against him as unfounded.

The Chairman continued: "I am sure that the good faith of our actions will eventually prevail. Nor will these stories deter us from pursuing our objectives. We will continue to focus our efforts on building the group and preparing its future."

"We stand at a critical time, where we must address the technological, commercial and geographic challenges that are fundamentally transforming our business environment."

Among these major transformations, Pierre Suard emphasized the importance of current technological changes:
"New technologies are emerging simultaneously, for the first time in history of telecommunications, in all of the group's main areas: mobile communications, synchronous transmissions, broadband switching and multimedia; and also in gas turbines and high speed trains in energy and transport activities. Accompanying and contributing to these developments is intense competition among operators, reflecting widespread deregulation."

"It is for these reasons that Alcatel Alsthom is committed to a strategy of high research and development expenditures and extensive restructuring programs, maintaining a strong focus on objectives that will ensure the group's long term success."

The Chairman also underscored another major change, concerning geographical markets.

"Markets outside of Europe offer tremendous growth potential in all our areas of activity. It is also a fact that our activities in Europe are currently slowing down somewhat, particularly in the public telecommunications market. Our European and in particular, French subsidiaries have been successful in entering new export markets, where their notable competitiveness has helped win significant orders. A large proportion of exports is directed toward the Chinese market. Alcatel Alsthom is also building a strong base for future growth in the rest of Asia and the Pacific Rim, another emerging market whose population and market potential is equivalent to that of China."

The General Shareholder's Meeting approved Alcatel Alsthom's 1993 financial statements and all proposed resolutions. Consolidated net income, net of minority interests, was FF 7.1 billion in 1993, unchanged from 1992.

The General Shareholder's Meeting also approved the parent company accounts and a dividend per share of FF 15.00 (net of "avoir fiscal" tax credit of FF 7.50), up from FF 14.50 for 1992. From June 27 to July 22, 1994, shareholders may elect to take the dividend in the form of new shares based on a price of FF 534 per share. Cash dividends will be paid on July 29, 1994.

Finally, the General Shareholders' Meeting approved the appointment of Jacques Friedmann to the Board.

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## FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Ltd., Goldman, Sachs & Co. and NatWest Securities Ltd. in conjunction with the Institute of Actuaries and the Faculty of Actuaries

| NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock | TUESDAY JUNE 28 1994 US Dollar Index | Day's Change % | Pound Sterling Index | Yen Index | DM Index | Local Currency Index | Local % chg on day | Gross Div. Yield | MONDAY JUNE 27 1994 US Dollar Index | Pound Sterling Index | Yen Index | DM Index | Local Currency Index | DOLLAR INDEX 52 week High | 52 week Low | Year ago (approx) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Australia (69) | 163.01 | 1.1 | 156.26 | 103.26 | 134.31 | 149.97 | 0.9 | 3.67 | 161.21 | 153.74 | 101.77 | 132.08 | 148.66 | 189.15 | 131.14 | 131.14 |
| Austria (17) | 185.52 | 0.6 | 177.84 | 117.51 | 152.86 | 152.74 | 1.2 | 1.05 | 184.08 | 175.54 | 116.20 | 150.81 | 150.93 | 195.41 | 142.90 | 148.06 |
| Belgium (37) | 166.14 | -0.4 | 159.27 | 105.24 | 136.90 | 133.76 | 0.2 | 4.13 | 166.80 | 159.06 | 105.30 | 136.65 | 133.49 | 176.67 | 143.62 | 144.67 |
| Canada (106) | 121.23 | -0.6 | 116.22 | 76.79 | 99.89 | 121.71 | -0.7 | 2.78 | 121.93 | 116.27 | 76.97 | 99.89 | 122.53 | 145.31 | 120.54 | 128.06 |
| Denmark (33) | 258.29 | -0.2 | 247.61 | 163.61 | 212.82 | 218.56 | 0.3 | 1.35 | 258.79 | 246.78 | 163.36 | 212.01 | 217.91 | 275.76 | 207.58 | 216.90 |
| Finland (24) | 143.89 | 0.6 | 137.94 | 91.15 | 118.56 | 159.02 | 1.2 | 0.90 | 143.07 | 136.43 | 90.32 | 117.21 | 157.06 | 156.72 | 87.81 | 87.81 |
| France (97) | 164.41 | 0.3 | 157.61 | 104.14 | 135.47 | 140.05 | 0.9 | 3.21 | 163.86 | 156.25 | 103.44 | 134.24 | 138.85 | 185.37 | 149.60 | 154.75 |
| Germany (58) | 136.28 | 0.7 | 130.63 | 86.31 | 112.27 | 112.27 | 1.3 | 1.84 | 135.32 | 129.04 | 85.42 | 110.86 | 110.86 | 147.07 | 108.76 | 108.96 |
| Hong Kong (56) | 353.01 | 0.1 | 338.41 | 223.61 | 290.88 | 350.29 | 0.1 | 3.39 | 352.63 | 336.27 | 222.61 | 288.90 | 349.92 | 508.56 | 271.42 | 289.46 |
| Ireland (14) | 184.11 | -0.2 | 176.50 | 116.62 | 151.71 | 169.82 | 0.3 | 3.59 | 184.42 | 175.86 | 116.42 | 151.09 | 169.32 | 209.33 | 155.93 | 159.54 |
| Italy (80) | 84.76 | 0.4 | 81.26 | 53.69 | 69.84 | 99.02 | 1.0 | 1.59 | 84.40 | 80.49 | 53.28 | 69.15 | 98.07 | 97.78 | 57.89 | 67.75 |
| Japan (469) | 166.87 | 1.0 | 159.97 | 105.70 | 137.50 | 105.70 | 1.3 | 0.72 | 165.27 | 157.61 | 104.33 | 135.40 | 104.33 | 166.87 | 124.54 | 149.66 |
| Malaysia (98) | 466.21 | -0.3 | 446.94 | 295.32 | 384.16 | 466.52 | -0.2 | 1.75 | 467.56 | 445.89 | 295.17 | 383.07 | 467.33 | 621.63 | 322.60 | 325.99 |
| Mexico (18) | 1889.81 | 2.3 | 1811.64 | 1197.08 | 1557.14 | 7005.53 | 2.3 | 1.11 | 1847.47 | 1761.74 | 1166.23 | 1513.52 | 6846.55 | 2647.06 | 1481.21 | 1494.03 |
| Netherland (27) | 197.21 | 0.0 | 189.05 | 124.92 | 162.50 | 160.08 | 0.6 | 3.56 | 197.26 | 188.11 | 124.52 | 161.61 | 159.18 | 207.43 | 164.59 | 166.83 |
| New Zealand (14) | 64.95 | 1.5 | 62.26 | 41.14 | 53.51 | 58.21 | 1.0 | 4.11 | 64.00 | 61.03 | 40.40 | 52.43 | 57.63 | 77.58 | 49.64 | 49.64 |
| Norway (23) | 187.07 | 1.0 | 179.33 | 118.50 | 154.14 | 176.26 | 1.5 | 1.69 | 185.30 | 176.70 | 116.97 | 151.80 | 172.70 | 206.42 | 152.42 | 152.42 |
| Singapore (44) | 334.11 | 1.1 | 320.29 | 211.64 | 275.30 | 234.77 | 1.1 | 1.80 | 330.57 | 315.23 | 208.67 | 270.82 | 232.20 | 378.92 | 244.27 | 247.29 |
| South Africa (59) | 270.04 | 0.3 | 258.87 | 171.06 | 222.51 | 280.36 | 0.4 | 2.25 | 269.31 | 256.81 | 170.00 | 220.62 | 279.12 | 294.68 | 175.93 | 198.09 |
| Spain (42) | 138.77 | 1.2 | 133.03 | 87.90 | 114.35 | 137.33 | 1.7 | 4.21 | 137.17 | 130.80 | 86.59 | 112.37 | 135.07 | 155.79 | 116.33 | 124.76 |
| Sweden (36) | 207.57 | 1.3 | 198.99 | 131.48 | 171.03 | 233.89 | 1.7 | 1.71 | 204.83 | 195.33 | 129.30 | 167.81 | 229.93 | 231.35 | 165.41 | 165.41 |
| Switzerland (47) | 160.62 | 0.8 | 153.97 | 101.74 | 132.34 | 132.74 | 1.7 | 1.83 | 159.38 | 151.98 | 100.61 | 130.57 | 130.49 | 176.56 | 124.46 | 127.52 |
| United Kingdom (205) | 183.49 | -0.2 | 175.90 | 116.23 | 151.19 | 175.90 | 0.3 | 4.28 | 183.82 | 175.28 | 116.04 | 150.60 | 175.29 | 214.96 | 170.32 | 175.69 |
| USA (519) | 181.93 | -0.2 | 174.41 | 115.24 | 149.91 | 181.93 | -0.2 | 2.95 | 182.37 | 173.90 | 115.12 | 149.40 | 182.37 | 196.04 | 178.95 | 184.80 |
| EUROPE (720) | 162.65 | 0.3 | 156.12 | 103.16 | 134.19 | 147.24 | 0.8 | 3.16 | 162.44 | 154.90 | 102.54 | 133.08 | 146.02 | 176.58 | 142.48 | 143.90 |
| Nordic (116) | 202.59 | 0.8 | 194.21 | 128.33 | 166.92 | 197.23 | 1.3 | 1.51 | 200.95 | 191.63 | 126.85 | 164.63 | 194.74 | 220.60 | 158.13 | 158.13 |
| Pacific Basin (750) | 173.03 | 0.8 | 165.87 | 109.60 | 142.57 | 114.65 | 1.2 | 1.04 | 171.49 | 163.54 | 108.26 | 140.50 | 113.31 | 173.76 | 134.79 | 152.89 |
| Euro-Pacific (1470) | 168.62 | 0.6 | 161.65 | 106.81 | 138.94 | 126.12 | 1.0 | 1.90 | 167.56 | 159.78 | 105.77 | 137.27 | 126.79 | 170.78 | 143.88 | 148.06 |
| North America (625) | 178.17 | -0.2 | 170.80 | 112.86 | 146.81 | 177.82 | -0.2 | 2.94 | 178.62 | 170.33 | 112.76 | 146.33 | 178.28 | 192.73 | 175.67 | 181.28 |
| Europe Ex. UK (515) | 147.89 | 0.5 | 141.77 | 93.68 | 121.85 | 129.45 | 1.1 | 2.52 | 147.14 | 140.31 | 92.88 | 120.54 | 128.02 | 157.47 | 123.61 | 124.26 |
| Pacific Ex. Japan (281) | 236.62 | 0.5 | 226.83 | 149.88 | 194.97 | 213.39 | 0.4 | 2.98 | 235.55 | 224.62 | 148.69 | 192.97 | 212.53 | 296.21 | 184.86 | 185.16 |
| World Ex. US (1653) | 169.24 | 0.8 | 162.24 | 107.20 | 139.44 | 131.20 | 1.0 | 1.92 | 168.19 | 160.39 | 106.17 | 137.79 | 129.89 | 172.51 | 146.58 | 149.89 |
| World Ex. UK (1967) | 171.38 | 0.4 | 164.27 | 108.54 | 141.19 | 144.09 | 0.6 | 2.07 | 170.72 | 162.80 | 107.77 | 139.86 | 143.24 | 176.58 | 155.96 | 158.97 |
| World Ex. So. Af. (2113) | 171.86 | 0.3 | 164.75 | 108.86 | 141.61 | 146.11 | 0.8 | 2.28 | 171.31 | 163.36 | 108.14 | 140.34 | 145.27 | 178.56 | 157.81 | 160.31 |
| World Ex. Japan (1703) | 177.82 | 0.0 | 170.47 | 112.64 | 146.52 | 170.32 | 0.2 | 2.99 | 177.78 | 169.53 | 112.23 | 145.64 | 169.92 | 185.20 | 166.06 | 168.11 |
| The World Index (2172) | 172.46 | 0.3 | 165.32 | 109.24 | 142.09 | 147.11 | 0.6 | 2.28 | 171.90 | 163.92 | 108.51 | 140.83 | 146.27 | 178.97 | 157.86 | 160.46 |

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Latest prices were unavailable for this edition.

Changing strategy among Europe's top manufacturers: PAGE TWO

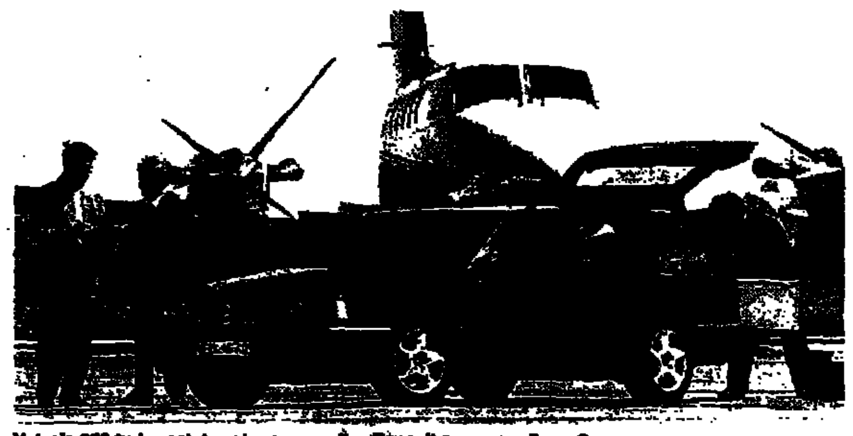
# EXECUTIVE CARS

Four-wheel drives keep their grip: PAGE FOUR

Thursday June 30 1994

Ford's Scorpio Estate 24V: traditional styles are under threat from 'MPVs'

Audi: exploring all-aluminium possibilities: see page four



Volvo's 850 turbo estate: where now after Renault merger collapse?

## Traditional concept challenged

**Sales could dip as executives opt for smaller, more flexible – but still well-equipped – cars, reports John Griffiths**

The world's executive car industry has entered a new age of uncertainty.

Even the traditional concept of the 'executive' car, as being a large, well-equipped, swift and silent saloon carrying up to five people on business, is under challenge.

If predictions by the Economist Intelligence Unit, DRI McGraw Hill and other forecasters prove correct, sales of this category of vehicle in Europe will decline by up to one-fifth between now and the end of the century.

In unit terms that would mean a sales drop of more than 130,000 units annually from the nearly 840,000 sold last year - a considerable blow to specialists in the sector such as Germany's Mercedes-Benz.

In this scenario, part of the decline will be caused by environmentally-motivated taxation and other legislation encouraging users to opt for smaller – but still well-equipped – cars.

Yet more will be accounted for by users opting for different types of vehicle. They will still be capable of performing the same basic function. But they will allow greater flexibility of use, or simply allow a user or owner to make a more overt 'statement' about his or her lifestyle.

Within these categories, by far the fastest growth is forecast for the 'MPVs' (multi-purpose vehicles) which most of the leading car makers are rushing to bring to market.

Typified by the Renault Espace in Europe and Ford's new Windstar and Chrysler's Voyager in North America, they have seven or eight seats but drive like cars and can be as well-equipped as any saloon. The EIU's own forecast is that their European sales will more than triple to well over half-a-million by the end of the decade, compared with 142,000 last year. Peugeot and Fiat are launching a joint venture vehicle in the sector, as are Ford and Volkswagen.

Four-wheel-drive 'lifestyle' leisure vehicles such as Land Rover's Discovery are also providing an acceptable alternative to the conventional executive car, although there is much more caution among forecasters as to whether, by the late 1990s, they may turn out to have proved a relatively short-term 'cult.' Both types of vehicle reflect the breaking up of the world's vehicle market into an ever-growing number of niches made possible by flexible manufacturing systems and working processes.

But the industry's uncertainty is being caused by other, no less important factors than consumer preference for its products:

For the big Japanese car makers such as Toyota, Nissan and Honda, whose executive and luxury car brands – Lexus, Infiniti and Acura, respectively – are produced entirely in Japan, the strength of the yen is causing severe pricing difficulties in overseas markets, particularly North America, which absorbs more executive and luxury cars than anywhere else in the world. Even little more than a year ago, many industry analysts believed the Japanese makers' advance into the executive and luxury sectors would prove all but unstoppable. Not only has the advance been slowed for hard financial reasons; some analysts are starting to maintain that the Japanese industry is running out of impetus in the key areas of design and development – "some Japanese companies seem to be in trouble, not just financially but in their ability consistently to design new models which customers find really attractive," maintain Booz Allen consultants Mark Snowdon and Norbert Wittemann in a new paper on the future of automotive innovation.

Japan's problems have coincided with a resurgence of North America's industry which has occurred with a rapidity and strength that few would have predicted at the start of the 1990s.

At that time Chrysler was nearly bankrupt and General Motors was in crisis resolved only by a boardroom coup. This year the collective earnings of Chrysler, GM and Ford are likely to top $10bn and with a highly competitive dollar, they are looking for direct exports in the executive sector as well as supplying the market with products made by their European subsidiaries. Ford, for example, is tapping Europe's growing executive coupe market with the US-designed and built Probe.

With a growing array of sophisticated vehicles like the Lincoln Town Car, the indigenous US car makers are recapturing ground previously lost to the prestige Japanese makes. Sales of prestigious European marques like Mercedes and BMW have begun a recovery in North America.

"The Japanese under-estimated the speed and ability of US companies to respond to their problems. Meanwhile, their own responses to the high yen and years of depressed financial performance have been inadequate, leaving them vulnerable to further inroads once American producers modernise their cars," according to Ms Maryann Keller, a well-known motor industry analyst with Furman Selz.

Despite their revived fortunes, the US 'big three' insist that they will not rest on their laurels and that much must still be done if they are not once again to be left behind as Japan's economic fortunes recover and the challenge from other Asian countries grows.

Some of the actions in train are set to have a structural impact on the European industry. Ford, in one of the biggest reorganisations in its history, is forming itself into several global product divisions. Ultimate responsibility for the design and development of large cars, for example, is to rest in the US, while European operations will lead small and medium car development.

Thus, while Ford chairman Mr Alex Trotman promises that Jaguars will be designed mainly in the UK, it has nevetheless become part of the 'world' large cars division.

BMW: bold moves with Rover

The landscape of the executive car industry in Europe has changed in other ways in recent months. Mercedes, already seeking to escape Germany's high costs with car and four-wheel-drive plants in the US and Mexico, is further developing its plans to enter the small cars sector with a luxury 'supermini,' and in a radical new joint venture to produce cheap city cars with the Swiss Swatch concern.

BMW, in a bold move which turned it, at a stroke, into a 1m units-plus a year group with instant access to wholly complementary front-wheel-drive and four-wheel-drive sectors, has bought up the UK's Rover Group to the chagrin of Rover's Japanese partner, Honda.

Now that emotions have calmed, there is talk of possible three-way collaboration between the groups – a development with as yet incalculable potential impact on the shape of the executive car industry.

The acquisition provided ammunition for industry analysts who argue that there is a much rationalisation yet to come in the European industry, and that it still has too many players. The collapse of the planned merger between Swedish executive car maker Volvo and Renault of France at the start of this year shows that such a process is likely to be slow and painful. And some of the players, despite heavy losses, make plain that they have no intention of giving up.

Fiat, for example, will shortly begin a big relaunch of its Alfa Romeo marque throughout Europe, through an expanded dealer network and with an extensive array of new products. In September it will also be launching an entirely new Lancia executive car, also the precursor to a complete renewal of the Lancia range. If, as some industry analysts maintain, they represent a "last throw of the dice" to maintain Fiat's long term survival in the executive car industry, then it is a very expensive one. The total investment programmes total more than L40,000bn ($24.95bn).

On car prices, meanwhile, there is pressure from the EU Commission for greater price harmonisation within Europe, as well as a growing awareness by consumers – as highlighted in a study of Japanese, US and European market prices by the Euromotor consultancy – that European prices overall are high compared with other developed markets.

The suspicion is growing that consumers are having to foot excessive bills for a European car manufacturing industry still struggling for global competitiveness.

It will not easily be allayed.

**Kevin Done** charts a change of strategy among Europe's top manufacturers

# 'Isolation is not strength'

The joint venture announced earlier this year between Mercedes-Benz, the German luxury carmaker and SMH, the Swiss pioneer of cheap watches, to develop a micro compact car is a dramatic sign of the radical changes of strategy that are being embarked upon by Europe's executive carmakers.

Mercedes-Benz, perhaps the world's leading producer of executive and luxury cars, is taking one of the most adventurous routes, as it maps out a future as a maker of a full range of cars from flagship limousines to two-seater micro city cars.

BMW, its arch rival, has previously built its reputation on a fierce independence and a reluctance to enter alliances with any other automaker. In a departure from corporate tradition, just as stunning as that of Mercedes-Benz, it has moved recently to broaden substantially its industrial base with the takeover of Rover group from British Aerospace.

Through the £800m acquisition of the leading UK vehicle maker it is doubling its production capacity and has become the foremost European maker of four-wheel drive sport/utility vehicles with Land Rover. It has acquired several new brand-names – most importantly Rover and MG as well as Land Rover – along with a position in the European market for small and medium-sized front-wheel drive cars, and a complex ready-made relationship with Honda, the Japanese carmaker.

With the marketplace fragmenting, BMW has accepted that it must move into new segments to add to its niche of high-performance executive and luxury cars. It could have continued to go it alone and develop the necessary products itself, but that would have taken time and been much more expensive. Instead, it has chosen the riskier fast track of acquisition.

It believes that with Rover it has also found a viable way of entering the small car market without diluting its own precious brand image. Rover is to be its centre for small car development. This will ensure BMW a presence in this marketplace but will not put at risk the BMW brand name, says Mr Bernd Pischetsrieder, management board chairman.

Volvo of Sweden, in the meantime, has been forced by rebellious shareholders and reluctant senior management to forsake the merger route as its chosen path towards future survival.

Its alliance with Renault, the French state-owned carmaker, was so well-heralded that the final move to a complete merger had been taken for granted. Much to the discomfiture of Mr Pehr Gyllenhammar, then Volvo chairman, the alliance failed late last year, when it became clear that leading Volvo shareholders would refuse to approve a merger.

The new board's strategy is to develop Volvo into a "streamlined" company. Non-core activities in food and pharmaceuticals are to be sold off to make the automotive operations "financially stable".

Full-scale merger appears to have been ruled out by the Renault debacle but according to Mr Sören Gyll, Volvo president, specific co-operative ventures "will be natural elements of our operations." Despite the failure of the alliance, he says that it is still the case that "in the automotive industry isolation is not strength."

Mr Gyll says that Volvo must "intensify its efforts to find partners" in the areas in which it operates, not least because the process of renewing its product range "must occur more rapidly than it has in the past".

Amid all this turmoil in Europe the most surprising change of direction has come from Mercedes-Benz, whose tradition had appeared to make it the least flexible of the world's leading prestige carmakers and the most unlikely candidate for re-thinking so radically the whole way it does business.

Mercedes-Benz has embarked on a far-reaching re-alignment of its product strategy. It has decided to transform itself from "a car manufacturer with a long tradition in the luxury class" into "an exclusive full-line manufacturer offering high quality vehicles in all segments of the market."

With astonishing frankness, it has accepted the unpalatable truth that its luxury cars were "over-engineered" and that if the company persisted with that policy in developing new models, it would end up being "priced out" of world markets.

Mercedes-Benz's new strategy means that by the late 1990s it will have launched a series of vehicles into new segments of the world market including:

- a multi-purpose vehicle, to rival models such as the Renault Espace,
- a modern four-wheel drive sport/utility vehicle that will be assembled in a new plant in the US,
- a small family car sized between a Volkswagen Golf and a Ford Fiesta, and
- a micro compact car, a two-seater for urban commuting, that it is developing in the joint venture with SMH, the Swatch watchmaker.

Mr Helmut Werner, Mercedes-Benz chief executive, says of the so-called "Swatchmobile": "We intend to create a market segment which has hitherto not existed in this form yet provides substantial growth potential... The micro compact car is ideally suitable to re-define urban mobility."

The car is being conceived partly as a second or third car for traditional customers, but Mercedes-Benz also wants "to appeal to new customer groups which were not open for us in the past".

In addition to the new product strategy Mercedes-Benz has embarked on a "radical rethinking" of its production structure, says Mr Werner. It plans to increase the share of its car production outside Germany to 10 per cent in the medium term from only 2 per cent at present, with production growing in such countries as the US, Mexico, South Korea and India.

It is cutting vertical integration – the level of in-house manufacturing – from 45 to under 40 per cent by 1998 by making greater use of outside components suppliers, and it is also ready to enter more co-operative ventures with other vehicle makers and suppliers.

Mercedes passenger vehicle production is likely to jump to about 1m a year by the late 1990s with the addition of the new vehicle ranges, from 482,000 last year. Its car production peaked at 598,000 in 1987.

Japanese feel the pressures of competition, says **Michiyo Nakamoto**

# A taste of their own medicine

Life used to be straightforward for Japan's luxury car makers.

Merely by making highly reliable cars that exuded wealth they could keep their wealthy customers happy and eager to order replacements every few years.

But as the Japanese car market has matured, and economic and social changes have affected customer tastes and market conditions, the environment for the country's executive car makers has become considerably more demanding.

"In the past, a luxury car was known as the danna's, or master's, car," explains Mr Hajime Nanno, head of the domestic market forecast group at Toyota. "People who ordered executive cars just wanted the very best and would buy the most expensive car from a catalogue without even seeing it. They would just say give me the best car you have.

"Nowadays, people are more demanding," Mr Nanno says. Rather than being attracted simply by the trappings of wealth, such as leather-bound seats, buyers of luxury cars in Japan are looking for a wider range of qualities such as safety, comfort and ease of driving.

At the same time, Japanese consumers are becoming more demanding in terms of price, forcing luxury car makers to rethink their pricing strategy.

The luxury car maket has not been unaffected by the cost-consciousness that has pervaded buying habits in Japan since the years of asset inflation came abruptly to an end.

Unlike the days when manufacturers could safely raise prices significantly every year, in today's low-growth economy "prices will have to be reasonably set because incomes won't rise that much any more," Mr Nanno says.

On both fronts, Japanese car makers face greater competition at home from foreign car makers, which have started to become a growing force in Japan's once protected domestic market.

Japanese car makers, which differentiated their luxury cars from those of many western competitors by offering high quality luxury cars at lower prices, are finding their strategy unravelling in the face of the high yen and the aggressive pricing strategies of competitors in the sector.

German luxury car makers, for example, are able to appeal to Japanese consumers' growing preference for cars which offer ease of driving, safety and comfort due to their strong reputation for just those qualities.

Their prices, meanwhile, are falling to levels that bring them more directly into competition with the luxury cars of domestic companies such as Toyota and Nissan, due largely to the yen's rise. Many foreign car makers have also adopted a strategy of taking advantage of Japan's low interest environment to offer lower-interest loans.

"A new development in the luxury car market is the popularity of imported cars due to the yen's rise," Mr Nanno notes.


Toyota's Lexus GS300: the US price has gone up

Neither is the challenge restricted to the home market. In the US, where Japanese car makers made tremendous efforts to build up the image of their luxury car lines as providing superior quality over established cars but at lower prices, the yen's rise has dealt a significant blow.

As a result of the yen's rise, coupled with the German car makers' strategy of lowering prices, a typical car from Toyota's luxury Lexus channel has gone from $40,000 in the US to $50,000, while a comparable BMW or Mercedes has gone the other way – from $60,000 or $70,000 to $50,000, Toyota says.

Japanese luxury car makers are full-line manufacturers which set out to win over the owner-driver in search of a high quality car at a reasonable price, rather than to target niche luxury markets.

"Our executives don't want to focus on high-profit low-volume cars. We don't think of ourselves as competing directly with Mercedes-Benz or BMW," says Mr Nanno. But he admits, that as market conditions have changed, "in effect ... we have to compete with them".

The road ahead may seem bleak for Japan's luxury car makers. However, the industry is confident that there are still great opportunities.

For one thing, while demand for luxury cars has declined amid Japan's car market slump, the fall for luxury cars has not been particularly sharp when compared with that for cars overall. The monthly average has fallen from a peak of 124,000 in 1990 to 95,000 last year but remains well above the 75,000 average in 1987.

Moreover, the market share of luxury and large cars has grown steadily over the past decade, from 28 per cent of the entire car market in the early 1980s to a peak of about 35 per cent in 1990, falling only moderately last year to 33 per cent.

Toyota's Mr Nanno explains that people who buy executive cars in Japan tend to be self-employed executives of companies who can charge the cost to corporate expenses. Whereas corporations and self-employed executives make up only about a quarter of the entire car market customer base, as a group they comprise 55 per cent of the luxury car market, he points out.

As Japanese society ages, and as people come to expect a higher standard of living, the chances are that the luxury car market will grow, rather than shrink. "More people will want to drive large cars that are spacious and safe," Mr Nanno says.

That may very well be the case. But it is also certain that competition for a slice of that growing cake will be heated as more foreign car makers target the Japanese market.

Both Mercedes-Benz and BMW are building their dealer networks in Japan, while US car companies are also showing a greater eagerness than ever to penetrate the Japanese market.

At the same time, Japanese luxury car makers face a difficult environment overseas as the yen's strong rise has weakened the cost advantage that they had in the US.

In order to maintain their reputation for offering high quality luxury cars at reasonable prices, they will have to put greater efforts into reducing the costs of the vehicles they manufacture in Japan, where labour costs are among the highest in the world.

**John Griffiths** examines UK suppliers' changing price strategies

# The Revenue gnashes its teeth

Car makers were uneasy two years ago when the Inland Revenue unveiled its proposals for a new company car tax regime, based on a simple percentage of cars' list prices.

In previous years considerable effort had gone into producing "tax-break specials" under the old tax regime, which heavily favoured high-earning executives compared with lower-paid essential users of company cars.

The old system, based on price and engine capacity bands, meant that an executive driving a highly-specified "perk" car of fractionally under 2 litres and £19,250 paid only the same personal tax on his company car as an essential user of a utilitarian vehicle of just over 1.4 litres, provided their marginal tax rates were the same.

Under the new system, effective from April 6, the same executive would have to swap his £19,000 car for a model costing a mere £12,500 so that the tax bill would be the same. Car makers feared that many executives would be tempted to downsize and downprice, thus sapping revenue from one of the most profitable sectors of the new car market. Vehicles with many executive "extras" provide disproportionately higher profit per unit compared with mainstream fleet cars.

It will take two or three years before the effect of the new system, in terms of vehicle choice, can be fully assessed. Nevertheless, there is little sign so far of executives opting for less tax-burdensome cars, according to Mr Michael Banner, Vauxhall's director of fleet sales, and researchers at Henley Management College who have studied the executive and fleet car market on Vauxhall's behalf.

While some preference is being shown for smaller cars – but only ones equipped to executive standards – there is only a very slight trend towards downpricing, the researchers maintain.

Mr Banner observes that "the typical executive driving a car priced at the old £19,250 tax threshold has looked at the changes, realised that his current car is going to cost him only another £20 or £30 a month and has decided 'I'll cope'."

Similar views are being voiced by other manufacturers. But that does not mean that significant changes in manufacturers' model mixes and marketing policies are not under way. One major effect of the new tax system was to eliminate entirely the engine capacity bands which previously had discriminated severely against larger units.

Particularly badly hit under the old system was the diesel engine. Though likely to be favoured by many fleet managers because of its one-third greater fuel economy compared with a petrol unit, it typically reqires larger capacity to provide comparable on-road performance.

The new tax system is already seeing the introduction of new versions of mainstream business cars with larger, high-performing V6 engines of 2.5 litres, as well as giving a further boost to the buoyant diesel car sector, sales of which in the first four months of this year were running 60 per cent higher than in the same period of 1993.

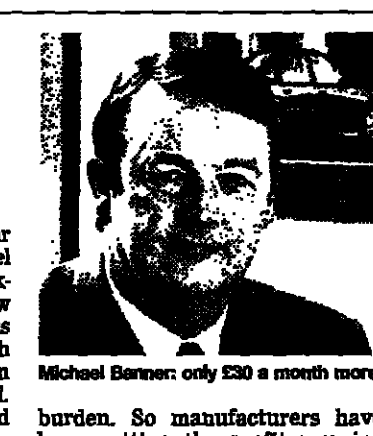
The diesel sales go on despite two learned reports in the UK, which argue that diesel exhaust emissions – including particulates suspected of causing cancer – could contaminate the air in cities if the diesel car population continues to expand.

One in four new cars sold in the UK is now a diesel. Business car users and fleet managers, increasingly impressed by the cost advantages, appear to be taking comfort from the fact that commercial vehicles – many of them elderly buses – account for at least two-thirds of the diesel exhaust pollution being created in urban areas.

It is not only at the £19,250 tax break point that the tax system changes are having an effect. The scrapping of the second threshold of £29,000, above which an executive's personal tax on his company car rose sharply, has eliminated model range "bunching" around the break-point while the capping of the new system at a £80,000 list price means that the expensive car makers such as Rolls-Royce and Aston Martin are not significantly disadvantaged.

It is in pricing structures and strategies that the new tax system has had some of its most notable effects – at least in terms of the notional prices which are paid for executives' cars. Traditional UK pricing policies – with a few exceptions such as Mercedes and BMW – have been based on a relatively high list price which few customers in the business sector actually pay.

There are widespread discounts – 30 per cent or more in a few notorious deals to particularly large fleet operators. The new list price-based tax regime makes such policies untenable because they would maximise an executive's personal tax burden. So manufacturers have been cutting the profit margins they allow their dealers. Once typically 15-16.5 per cent, plus the chance of cash bonuses from manufacturers for meeting sales targets, these "official" margins have been cut to 10 per cent and in some cases – over the past few weeks in the executive sector – to 5 per cent.


Michael Banner: only £30 a month more

Indeed, Vauxhall's new Omega executive car range was launched with a 5 per cent margin. In a few cases, the margin has been dispended with altogther in favour of a fixed "handling" charge payable to the dealer. Some Renault and Volvo models fall into this category. So do some of the cheapest Rover 800 models with a £500 fee, while Ford is allowing a £1,500 handling fee on its US-built Probe coupé and is giving only a token margin on its Granada/Scorpio executive cars.

The changes have been accompanied by much trumpeting about lower prices. This is convenient in view of the pan-EU car price comparisons now published twice a year at the behest of the European Commission, which wants to see price convergence between EU new car markets and tends to regard the UK as a high-priced market.

But transaction prices have not changed a lot because dealers were already giving away much of their official margin and relying on incentive bonuses from manufacturers to make a return on mainstream executive cars. They now merely have less room to haggle.

The approach does mean a lower company car tax burden for executives – and a lower tax take for the Inland Revenue. At the moment, the Revenue can only stand by gnashing its teeth. How it might react, in the longer term, to an entrenched system of zero profit margins and "handling charges" is another matter altogether.

**Scheherezade Daneshkhu** on the impact of new tax rules

# Worse than its bite

It is too early to measure the impact of the UK's new system of taxing the company car benefit, implemented on April 6, but it is unlikely to be revolutionary.

The new system, which replaces the scale charges based on engine size and price thresholds, with a tax based on the list price of the car, was first set out by Mr Norman Lamont, the former chancellor, in his March 1993 Budget and was aimed at ending distortions in the new car market.

Since the measure is meant to be "revenue neutral", for every employee who finds he faces a higher tax burden, there should in theory be another paying less tax as a result.

A revolution is not expected because the high increases in scale charges over the past few years have already forced many company car drivers to rethink the utility of taking the company car.

Moreover, the 1991 Budget which ushered in the requirement for employers to pay national insurance contributions on car provision as well as the recession, has prompted many companies to review their attitude towards the cost of providing cars for employees.

A recent report by Sedgwick Noble Lowndes, the employee benefits consultancy, found that the proportion of employees earning between £15,000 and £25,000 and receiving a car dropped from 70 per cent in 1992 to 60 per cent in 1993. The trend was also noticeable, though less marked, among those earning more than £25,000: 93.4 per cent received a company car in 1993 compared to 94.5 per cent a year earlier.

The new taxation system has the virtue of relative simplicity. The employee pays tax at his marginal rate, on 35 per cent of the list price of the car the day before it was registered. This price must include VAT, delivery charges, and accessories of £100 and over.

The status of personalised number plates, which had been in dispute, has recently been clarified by the Inland Revenue which has decided that they do not count as an accessory.

The list price is capped at £80,000 – more expensive cars are taxed as though the price had been £80,000. Drivers covering 2,500-17,999 business miles are allowed a reduction of a third on their assessment, while those covering more than 18,000 receive a discount of two-thirds.

There are also reductions for the age of the car. If the company car is four or more years old at the end of the tax year, there is a further one-third reduction on top of the deductions for business mileage.

The rules differ for classic cars or those without a list price. If a car is 15 years old or more at the end of the tax year, or has a market value of £15,000 or more (which is higher than the manufacturer's list price when the car was first registered), the price for tax purposes will be the open market value of the car and its accessories.

Fuel provided for private use is taxed on the basis of the car's engine size and whether it is petrol or diesel-powered. But there is no tax if the employee pays for private motoring fuel himself.

So who are the winners and losers under the new system? A survey released earlier this year by W.F. Corroon, an actuarial and benefits consultancy, found that middle managers driving mostly Fords, Vauxhalls and Rovers costing between £16,000 and £23,600 would lose the most under the new system, with some paying as much as £600 extra tax. In general, the losers are drivers who chose cars at the top of the old bands.

Sedgwick Noble Lowndes says that as a result of the new taxation system, it expects to see "a move to the more basic financially beneficial models, without the tax-hungry extras, as long-overdue renewal dates are reached."

It also believes that the trend "may be particularly pronounced in companies where a 'trade-down' option is provided and if employee demand for this facility intensifies, then increasingly schemes must become more flexible to include the choice to trade down or up."

The new tax system is also expected to encourage more employers to provide a cash alternative with a concomitant increase in the take-up of such offers. However, Mr Paul Wigham of Price Waterhouse says: "In our experience, only a very small proportion of employees have opted for the cash alternative although it is growing in popularity as companies are offering slightly more."

Take-up has been low because unless employers can make savings, they do not want to be more generous than they have to be. Mr Wigham says: "In general, employers are pitching the cash alternative at about £1,000 to £1,500 less than the car would have cost them."

It can be difficult to judge whether the amount of cash on offer is a good offer or even a fair one. Mr Wigham suggests that: "As a rule of thumb you should calculate your annual mileage and check what the cost will be (the AA and RAC publish mileage costs guides which take depreciation, insurance and tax into account) and compare that with the after-tax increase in salary being offered."

However, the calculation is complicated by the difficulty of putting a price on the convenience factor of driving a company car. Many employees find the luxury of foregoing the hassle of arranging a replacement car or negotiating with the insurance company after an accident, not to mention the convenience of not having to shoulder the burden of an increased premium due to an accident, an invaluable benefit.

In general however, those who are most likely to benefit by taking the cash alternative are employees with business mileage of under 2,500 miles – the pure "perks" drivers. They will pay proportionately the largest amount of tax, since they will not benefit from the mileage discounts. They are most likely to see savings if they take the cash offer and then buy a cheaper car for their personal use than the one they would have been offered by the company.

Alternatively they could combine a smaller salary increase with an interest-free loan from the employer to help with the purchase of a car. If the car being bought is the company's, it would have to be purchased at market value to avoid further tax. The loan benefit would not be taxed so long as the loan is for a maximum of £5,000 and there are no other outstanding loans from the employer.

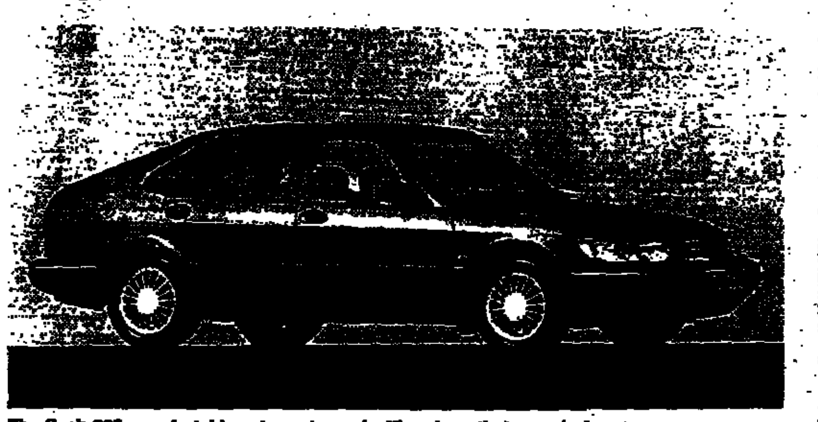
The new tax system does not herald the demise of the company car, according to Sedgwick Noble Lowndes: "The wholesale removal of the company car as a benefit is unlikely to become a widespread reality. As long as the car does not become a financially unattractive proposition to the majority of employees, it will still remain a benefit option in most organisations to aid in attracting and retaining senior staff, even though the cost to employers has significantly increased since mid-1992 due to the introduction of national insurance contributions."

### UK TAX INCREASE

This table indicates the 43 per cent tax increase (assuming taxation at 40 per cent) for a driver of a two-litre, five-door Ford Mondeo Ghia (retail price £18,290)

| Benefit in kind | Annual tax | Monthly tax |
|---|---|---|
| **1992-1993** | | |
| £4,485.00 | £1,794.00 | £149.50 |
| **1994-1995** | | |
| £6,401.50 | £2,560.60 | £213.30* |

Since April 1994, taxation of a company car in the UK has been based on car value, rather than on engine size. For those drivers who do a high business mileage, the company vehicle is still the best option, says Len Clayton, managing director of Swan National Leasing – "the company car is still a seductive benefit, largely because it removes many of the hassles associated with being an owner-driver," he adds. Costs are predictable, repairs and maintenance are included as part of the benefit, and expert advice is generally no more than a phone call away, he adds. Swan offers a 'National Carchoice' scheme which aims to provide the private motorist with a standard of service previously associated with the operation of a company car.



The Saab 900: comfortable yet sporty, and with automatic transmission

The Mercedes-Benz S-Class: driving joie de vivre that no other luxury cars can match

See how they go: **Stuart Marshall** finds himself spoilt for choice

# No duds above the £15,000 level

An honest motoring correspondent has to admit that sorting out the wheat from the chaff among the current crop of new models is not easy. Why? Because they are all good. Some are slightly better than others, though much depends on what the user is looking for.

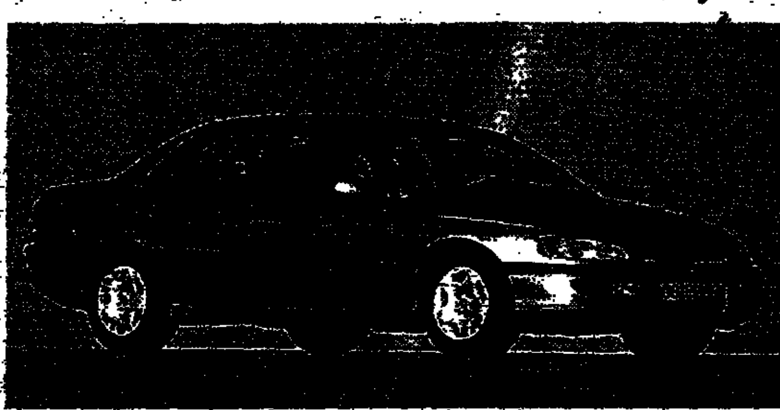
What one *can* say with confidence is that there is no such thing today as a really dud car. Excutive-class motorists rightly take it for granted that a car will be reliable, quiet, comfortable, adequately roomy, have power-steering and ABS brakes and look nice. So, what else is there to take into consideration?

Ignore for the moment the minority with individual requirements for sports coupés or luxuriously appointed four-wheel-drive, on-off road vehicles as company cars. It then comes down to a mix of personal taste and tax liability, coupled with the finance director's thoughts on retained values.

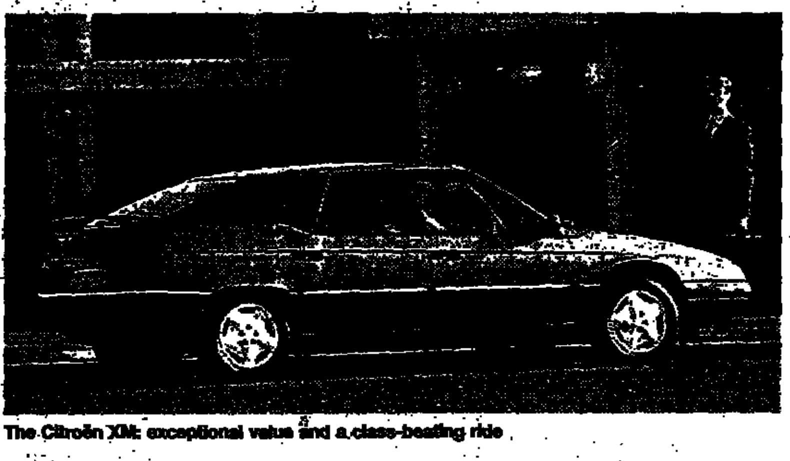
Within these parameters, I reckon most executive users would be happy with the performance of practically any four- or five-door priced over £15,000.

Petrol-engined cars of particular appeal to me in the lower price brackets – say from £15,000 to £18,000 – would be: a highly specified Renault Laguna RXE 2.0, for its refinement; a limited edition Citroën XM Premiere 2.0-litre turbo, for exceptional value and aclass-beating ride; a Vauxhall Cavalier 2.5i V6 for large engined relaxation; a spacious Vauxhall Omega 2.0i 16v; a quiet and elegant Rover 620i, with its traditional British interior; and a comfortable yet sporty Saab 900 S 2.0i 5-door. All can have automatic transmission; I would not consider an executive car without it.

Moving up the price scale, I could be seduced by the BMW 520i or a Mazda Xedos 6 2.0i V6 for their multi-cylinder refinement. The 5-cylinder, front-wheel driven Volvo 850 GLT 2.0 is equally fanciable. A Mercedes-Benz C-180 Elegance has the timeless appeal of any car with the three-pointed star.



The Omega: among the leaders for room, refinement, comfort and equipment



The Citroën XM: exceptional value and a class-beating ride

In the £24,000 to £30,000 class there is an embarrassment of riches, but saloon cars I have found particularly satisfying include the Jaguar XJ6 Gold, Mazda Xedos 9, Toyota Camry V6 GX and Mercedes-Benz C-280. Over the £30,000 mark, the BMW 5-Series with 3.0-litre or 4.0-litre V8 engines are as urbane as they are muscular, particularly with 5-speed automatic transmission. The Lexus LS300 and LS400 have few rivals for sheer silence.

Enter the sky-is-the-limit price level and, among large saloons, it is really a Mercedes-Benz S-Class benefit. These exceedingly roomy and comprehensively equipped cars set standards of safety, technology and – surprisingly – driving *joie de vivre* that no other large luxury cars can match. The Jaguar Daimler Double Six is beginning to show its age, but its V12 engine's power delivery is Dom Perignon to a normal car's sparkling blanc de blanc. And the Bentley Brooklands, for less than £100,000, is the best value product Rolls-Royce has offered in years.

And what of the minority choices – the estate cars, sports models and on-off road four-by-fours? Many an executive whose family includes a horse-mad daughter and has to transport all the gear that goes with equestrianism opts for an estate, such as a Volvo 940 or 960, Citroën XM, Ford Scorpio or Mercedes-Benz 300T.

They offer saloon-car comfort with bulk carrying capacity. The Citroën's height-adjustable, self-levelling suspension can be a boon. A new rival, with petrol engines ranging from two to three litres, plus a 2.5-litre 6-cylinder BMW-sourced diesel, is the Vauxhall Omega. It is up among the leaders for room, refinement, comfort and equipment at highly competitive prices.

BMW's 5-Series Touring and the Audi 100 estates have a sporting demeanour and carry bigger loads than a saloon, though they cannot match the large Citroën, Ford, Mercedes-Benz, Vauxhall or Volvo estates for sheer bulk load capacity.

One of the best sports cars for an executive user-chooser is Ford's new American-built Probe, V6 engined, very civilised to drive and able to take four people when required.

Of the 4x4s, the Range Rover is still king, though the Mitsubishi Shogun runs it close for status. Independent front suspension gives the Shogun a better ride. The Land Rover Discovery offers practically all a Range Rover's benefits at a much lower price, and posh versions of what used to be the Isuzu Tropoper but is now the Vauxhall Monterey are equally pleasant on and off road.

**Kenneth Gooding** on UK company policy

# Perks are curbed

The ways in which companies allocate executive cars not only give an indication of the general health of UK companies but also provide an idea of the difficulties that they may have in recruiting and holding senior people.

The latest clutch of surveys about the company car market suggest that, while the UK economy is improving, there is no shortage of talent available and that corporations can be less generous in their car allocation policies.

For example, Lex Vehicle Leasing, in its latest Report on Motoring, draws the conclusion that business confidence in Britain is on the rise, because the average age of the company car went down from 2.8 years in 1992 to 2.5 years in 1993. This reverses a three-year trend. Moreover, Lex points out that the number of company cars on Britain's roads rose slightly last year, from 2.65m in 1992 to 2.7m.

"Companies make investment decisions, like replacing company vehicles, when they are confident that the business climate is improving. I think these results indicate a turnround in business outlook," says Mr Jon Walden, Lex Vehicle Leasing's managing director.

However, a survey by William M. Mercer, the consulting actuarial group, suggests that those companies making or contemplating changes to their company car policies are gearing up to be less generous and more restrictive.

For example, nearly half of the surveyed companies that have made changes extended their replacement criteria, as 16 per cent of those contemplating changes intend to do. "Replacement of a company car at over 75,000 miles is now almost as common as replacement between 60,000 and 75,000 miles. Replacement at over three years and up to four is now more common than at over two years and up to three," Mercer reports.

Its survey also shows that a higher percentage of organisations employing fewer than 5,000 are restricting the number of people eligible for company cars. The main reason given by companies making such changes was "cost containment".

Mercer gives an indication of typical company-car costs, as at June last year, for various management groups. The median average salary for directors and partners in the companies surveyed was £60,000, and the purchase price for their company cars was £25,000. Senior managers' median average salary was £40,000, and their car purchase price was £19,000. The finding for middle managers was a median average salary of £28,000 and a median average car price of £15,500. For the junior management/specialist, the salary was £20,000, and the car price was £12,800.

Monks' Guide to Company Car Policy, published in collaboration with Lease Plan UK, gives an indication of the cash limits – that is, the maximum permitted outlay – for company cars. It suggests the median cash limit for chief executives was £30,500; for other directors it was £26,000; for senior managers the limit was £22,000; while for area sales managers it was £14,000.

**Sales representatives may no longer get a choice of car**

And what do executives choose for their money? According to Monks, a remuneration consultancy, 22 per cent of company chairman want a Jaguar and 16 per cent a Mercedes. Rover comes a distant third in the desirability stakes at 7 per cent.

Jaguars are also the choice of 32 per cent of chief executives, followed by BMW and Mercedes (17 and 15 per cent). Some 8 per cent of chief executives choose Rover.

"Other directors" put BMW top of their list of choices in a close-run race. Some 18 per cent choose BMW, 15 per cent Jaguar, 12 per cent Rover, 11 per cent Ford and 10 per cent Mercedes. Senior managers put Rover and Ford neck and neck with 19 per cent each, followed by Vauxhall, with 17 per cent, and BMW, 13 per cent.

Vauxhall moves to the top of the popularity poll with area sales managers, being the choice of 30 per cent, followed by Ford, with 22 per cent, and Rover, 15 per cent.

Monks' research tells a similar story to Mercer's. It says: "Although the majority of directors and senior managers are permitted the choice of any car, subject to a price limit, a matched sample of comparison shows that an increasing percentage are being restricted to a defined list of models. In the important area of sales, an increasing number of companies are either permitting sales representatives no choice or no longer permitting the choice of any car."

Companies are also attempting to cut the provision of fuel for private motoring. Monks reports a "marginal reduction" in the number of companies providing this perk. "The findings continue the trend observed in 1993 of an increase in the percentage of companies offering no fuel and a decrease in the number offering some," it says. However, "the more senior the employee, the more likely he or she is to receive fuel for private motoring."

And when are senior managers entitled to change their company cars? Monks says 37 per cent of chief executives can replace their cars after three years. A further 48 per cent keep their cars for more than three years. The most popular mileage for a change is 60,000 (24 per cent) but 32 per cent of companies do not specify a mileage limit for their chief executives.

The pattern is very similar for "other directors," with 38 per cent exchanging cars at three years and a further 50 per cent keeping them for more than three years. Once again, the most popular mileage limit was 60,000 (25 per cent) and 28 per cent of companies specified no mileage.

Another sign that companies want more value for money from their company cars – no matter what the user might feel about it – comes when Monks reports "a continued increase in the number of companies choosing 80,000 as a mileage limit [for all their cars], with four years now being the most popular time period for replacement."

**Arthur Way** explains why four-wheel drives are keeping their grip

# Smart suits appreciate low depreciation

In a manner that reflects their progression along a muddy track, four-wheel-drive vehicles (4x4s) have shown no signs of faltering during recent years in the UK marketplace.

At 58,561 units in 1993, demand for 4x4s – also known rather quaintly as off-road cars – was double the level of just two years earlier, and eight times as high as 10 years ago.

These numbers refer to the entire off-road car sector, which can be divided into three main groups. At one end of the spectrum are such vehicles as the Daihatsu Fourtrak and Suzuki Vitara. These often come in soft-top variants, favoured by younger owners for their affordability and the element of "fun" they provide. As such, they do not fall into the executive category.

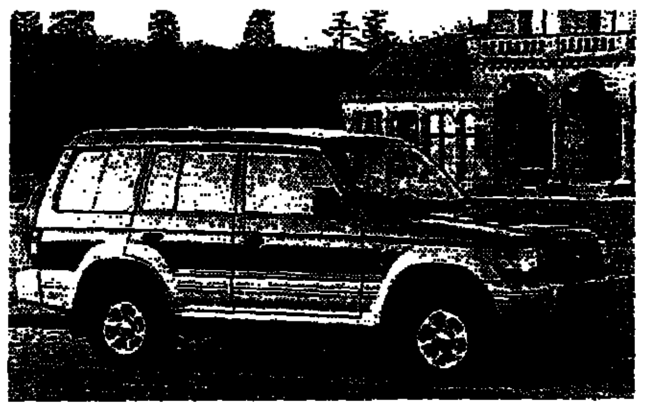
Next come the mid-range models, typified by Ford's Maverick and its cousin the Nissan Terrano, both of which are manufactured in Spain. These are closer to executive-car territory and, in some cases, are chosen by senior management for their mainstream transport.

Finally, there are the "heavyweight" 4x4s, including Chrysler Jeep's Cherokee, Isuzu's Trooper, Land Rover's Discovery and Range Rover, Mitsubishi's Shogun and Vauxhall's recently introduced Monterey. These models are moving to centre stage in the executive car market, with the result that sales have increased substantially and more manufacturers have entered the sector.

At first glance it is somewhat puzzling why this should be so. After all, executives are associated with smart suits, briefcases and travel between one company car park and another, rather than country garb, bales of straw and the need to cross rough terrain. The apparent absurdity is compounded by the terms of business-user insurance policies, many of which forbid off-road use. There are, however, two compelling reasons why 4x4s have become so favoured as executive transport.

First, fleet managers, finance directors and proprietors of small businesses are looking with increasing favour towards 4x4s, because of their high residual values. Mitsubishi, for example, states that the Shogun loses only about 15 per cent of its value in the first two years. In contrast, a typical executive car may lose half of its original purchase price during the same period.

Second, latest versions of 4x4s incorporate many of the characteristics and features of large luxury cars – such as



Mitsubishi's Shogun 2.8 Tubo Diesel five-door model

Chrysler's Jeep Cherokee 4.0

ABS braking, airbags, air conditioning, automatic transmission and leather seats. They drive and feel like a car, and have comparable performance, while many users appreciate the commanding position high above the traffic and the feeling of safety which this brings. Moreover, there are a variety of additional attributes, ranging from high load-carrying capacity and the ability to travel with assurance during inclement weather.

According to the leading suppliers of heavyweight 4x4s, typical buyers are business and professional people in their late 30s or early 40s, who have an active lifestyle. Although the vehicles rarely – if ever – leave a made-up surface, quite a number are fitted with a tow-hook, which suggests that some owners use them to pull equipment such as boats, gliders and horseboxes.

Evidence from the marketplace indicates that a fairly wide range of cars is being traded in for 4x4s. Buyers of Land Rover's Discovery, for example, tend to have had large estate cars, whereas Range Rover buyers are trading in marques such as BMW, Jaguar and Lexus.

Land Rover is the market leader by a wide margin, thanks to its legendary Range Rover and highly successful Discovery. The latter was launched towards the end of 1989, since when more than 125,000 have been produced, of which around 65 per cent have been exported to 50 markets, making the model Britain's main contribution to the global 4x4 leisure market.

The Discovery is distributed in Japan through two channels – Rover Japan and Honda's Verno network, where it is sold as the Honda Crossroad. In an important move, the model was launched in American during April 1994. Land Rover sells around 5,000 Range Rovers a year in this market, and expects to see the Discovery achieve double that number.

Prospects have also been enhanced following the introduction of the 1995 model version (in March 1994). This has a new interior and manual gearbox, together with a reworked engine which provides greater refinement.

Mitsubishi has established a loyal following with its Shogun model, which is the world's best seller in the 4x4 off-road car sector. Since its launch in 1983, the company has produced more than 1m units, and annual sales currently amount to around 180,000. In the UK, though, the figure is below 4,000 – representing 25 per cent of Mitsubishi's import quota – and is unlikely to rise significantly in the short term, due to continued restrictions on Japanese imports. In the absence of this constraint, sales would undoubtedly be noticeably higher. Mitsubishi reports growing interest on the part of executive buyers for the Shogun, particularly during the past year.

Chrysler Jeep's experience, since its debut in the UK at the beginning of 1993, provides a good indication of the 4x4 market's buoyancy. A first-year sales target of 2,000 turned into actual sales of 4,000 units, of which 3,500 were Cherokee models bought principally by business people. The target for 1994 is 5,000 sales, including 4,500 Cherokees. Chrysler Jeep reports that the majority of trade-ins are quality saloon and estate cars with few 4x4s. At the moment, only petrol-engined versions are available, but a turbo-diesel is scheduled to arrive later in the year.

Vauxhall is another recent entrant, following the introduction of the Monterey in May 1994. The company is targeting the model (which is made by Isuzu in Japan) at executive car buyers who are on the verge of trying something different. The sales target for 1994 is 2,000 units, of which 70 per cent are expected to be the long wheelbase 5-door version.

The future of the executive 4WD sector looks good, as more people in the position to afford heavyweight 4x4s recognise their characteristics. Recent changes to company car taxation – whereby scale charges are assessed on purchase price, rather than engine size – may help the sector's development, since many of the models feature large engines in the 3-4 litre range and were unduly penalised under the previous system.

In addition, as tax scale charges are notched up to reflect more closely the monetary benefit of having a company car, executives are more likely to choose the model they really desire, rather than some identikit executive saloon. Under these circumstances, maybe the greatest threat will come from the growing ranks of multi-purpose vehicles – another alternative sector.

**Paul Taylor** investigates the latest in in-car communications

# Travelling businessmen can keep in touch

Radio waves have beamed a one-way stream of entertainment and information into moving vehicles ever since the first car radio was fitted. But, over the past decade, advances in data processing and cellular radio-telephony have added a new two-way "interactive" dimension to in-car communications which is already increasing the productivity of the travelling executive on the road.

Leaving the office no longer means forsaking the facsimile machine, the computer system and the telephone. Cellular-radio telecommunications services in particular have proved to be a valuable business tool, initially for voice, and now for data communications.

Equipped with the right cellular telephone handset, a portable computer and a fax-modem, it is now possible to exchange data with head office, collect electronic mail or send a facsimile message while on the move. Where a hard copy is required, lightweight high quality portable printers are now available, as are notebook PCs with inbuilt ink-jet printers.

If secure high quality voice-only telecommunications are required, the business traveller will soon be able to use one of the new pan-European GSM-standard digital cellular telephones to make a telephone call almost anywhere in Europe. In a couple of years satellite-based systems will offer digital telecommunications services from anywhere on earth. Alternatively, if data-only transmission is needed then a new breed of dedicated mobile data service operators has begun to appear.

This revolution in mobile telecommunications started in the US in the early 1980s and spread to Europe via Scandinavia and the UK in the mid-1980s. Since cellular radio telephone services began in Britain in 1985, the number of subscribers to the two original analogue networks, Cellnet and Vodafone, has grown to about 2m – or a fifth of the total 10m cellular telephone subscribers in Europe.

From the outset, cellular telephones found their way into executive vehicles in the form of dedicated carphones. In equipment terms carphones still provide a cost-effective option for the corporate fleet, but lightweight pocket-sized hand-portable telephones have come to dominate equipment sales in recent years. Most of these handsets can also be used with a car kit – which extends battery life and provides better reception – but can also leave the vehicle along with the user.

**A fifth of Europe's 10m cellular subscribers are in the UK**

Meanwhile, the range of cellular services available to the business user has expanded dramatically in the past two years. In particular, digital cellular technology has led to a second generation of cellular networks in Europe, while encouraging the operators of the older analogue networks to cut prices and re-organise their tariff structures.

In the UK Cellnet and Vodafone offer a total of six different tariffs on their analogue networks. In addition both have built digital networks based on the GSM standard. In Britain, where the old analogue networks still provide superior national coverage, some analogue handset prices have been cut to £100 or less and the uptake of these new GSM services has been relatively slow.

However, in Germany and other markets where analogue network capacity was restricted, or had not been developed, GSM subscriber numbers have grown rapidly over the past two years. In some markets, particularly Denmark and Germany, aggressive marketing has already resulted in the elimination of the price premium on GSM equipment.

The launch last year of the Mercury One-2-One service in the UK – the first digital PCN (Personal Communications Network) in the world – followed by inauguration of Orange, the network owned by Hutchison Telecom, in April has provided subscribers in Britain with further options. Orange's tariff structure in particular is designed to appeal to high volume business users. In Europe PCN networks are also planned in Germany and France.

In the longer term these digital cellular services should have another key advantage over their analogue counterparts – digital technology makes it much easier to transmit data over a cellular radio network.

The liquid crystal displays on GSM and PCN handsets can potentially be used to provide a sophisticated pager and message service. In addition, handsets equipped with an appropriate socket should eventually be able to accept data from a notebook PC or a handheld personal digital assistant, without the need for a modem.

In the meantime, however, it is perfectly possible – though somewhat more difficult and less reliable – to send or receive data over an analogue network using a special wireless modem and handset. Another alternative is to sign up for a dedicated mobile data service, such as the Ram Mobile Data network in the UK, that is designed to work with portable PCs and other digital equipment such as facsimile machines at high speed.

**The driver would be alerted by a computer generated voice**

Digital radio in either cellular or satellite form, is also likely to provide the communications backbone for another set of productivity enhancing tools for the motorist – so-called route guidance and congestion avoidance systems.

There are already a number of commercially available route guidance systems in use in the UK and elsewhere. Among the real-time systems is Trafficmaster, which is used by more than 4,000 British motorists. It is a dashboard-mounted unit which tells drivers about traffic speeds on about 1,000 miles of motorways in the south and midlands, pinpointing delays and estimating travel times.

The information is collected by infra-red sensors placed on bridges and gantries over motorways which monitor the speed of passing traffic and send the information to a control centre in Luton from where it is relayed immediately to subscribers' vehicles.

More sophisticated systems integrating problem identification, satellite global positioning systems and route guidance are likely in the next decade. Much of the groundwork for these systems has being undertaken under the aegis of EU-sponsored research programmes such as Prometheus which have brought together the big European vehicle and components manufacturers in strictly non-competitive collaborative research.

Some researchers are already suggesting that by the end of the century in-car electronic navigation equipment, working with global positioning systems, will allow a driver to follow the progress of a journey on a moving map shown on a screen, or enable emergency services to pinpoint a disabled vehicle.

Research is also being conducted in the UK and elsewhere into Radio Data Systems which would allow local traffic information to replace national broadcasts in digitised form. This up-to-date data would be decoded by the in-car navigator and the driver alerted to problems ahead either via a text display, or by a computer generated voice.

What seems certain is that the next generation of communications technology will enable the travelling businessman to send and receive vastly more information. At the same time, increasingly sophisticated data processing equipment will enable this information to be analysed, manipulated and displayed more easily – and integrated with other in-vehicle electronic systems ranging from entertainment equipment to collision avoidance systems.

**Richard Feast** on private contract purchase schemes

# Leasing catches on in Britain

A two-year-old scheme to get private buyers into new cars has met with such success that many in the industry expect it to account for half of all private transactions in the future.

The format, which works on the basis that most buyers are far more interested in the size of the monthly repayment than the total cost, was imported from the US, where it is known simply as leasing.

In Britain, leasing attracts VAT, a tax which is already included in a new car's retail price, and this has prompted the Finance and Leasing Association (FLA) to come up with the generic term, private contract purchase (PCP).

The first such scheme in the UK, Ford's Options was introduced in 1992 in the run-up to the August sales boom.

Ford's big rivals were quick to follow – Vauxhall with Choices, Rover with Select, Peugeot with Passport and so on. Now, practically every car manufacturer has a PCP. Early problems, caused largely by a lack of dealer training, seem to have been ironed out.

The attraction of a PCP is that a driver can get behind the wheel of a new car for relatively low monthly payments. "As it is aimed at private purchasers, we find Select is skewed towards our smaller cars, the Metro and 200," says Mr John Lowndes, marketing operations director at Rover.

Mr Andy Green, sales director of Nissan, which was one of the last into the arena with its Preferences scheme, adds: "PCPs are particularly attractive to younger drivers."

The schemes differ in detail, though the principles are similar. A driver is required to make a deposit of 30 to 40 per cent. When the contract is drawn up, the dealer estimates the car's value after the end of the agreed period (either two or three years) based on the driver's projected annual mileage (6,000, 12,000 or 18,000). The driver then pays a monthly fee based on the difference between the new and second-hand prices, plus interest charges.

At the end of the fixed term, the customer can decide to keep the car by making the final "balloon" (or lump sum) payment, swap to another new model, or simply walk away. Thus, a £6,500 model such as a Citroen AX can be driven for three years for under £100 a month. A £13,000 car such as a Ford Mondeo costs under £220 a month over a two-year period.

A PCP does not make a car any cheaper; the difference between the final cost of a hire purchase agreement and a PCP (including the balloon payment) is small. But it does make it more affordable in the short term.

It presents the customer with a fundamental alternative to car ownership: it offers the opportunity of paying just for the use of the vehicle, rather like a long-term rental agreement.

The schemes arrived at a fortunate time for the motor trade. New car demand was still depressed after several years of expanding demand. Even the recent quickening of pace in sales has come mainly from fleet purchasers where orders are counted in terms of 25 or more cars. The private, or retail, side has lagged behind.

Top-of-the-range models (from top): the Jaguar XJ6 Gold, the Rover 800 Vitesse Sport and the Renault Safrane Baccara

PCPs have stimulated interest among private buyers at a time of considerable economic uncertainty. The schemes, with their fixed, low cost monthly outlays, give consumers peace of mind when so much else is uncertain.

Repair costs are covered by the manufacturer's warranty and some purchases carry roadside assistance programmes. The only additional outlay is common to all cars: insurance, tax and servicing.

Some of the more recent PCPs are going further. Toyota's Terms plan can be extended to include regular servicing. Citroën's new Elect scheme can be expanded to include items that wear out such as tyres.

"If you look at PCPs within the finance-funded sector, they moved from nothing to about 25 per cent within 18 months, Rover's Mr Lowndes says. Mr David Nash, public relations manager of Ford Credit, reports a similar performance. "Ford is doing between a quarter and a third of its retail business through Options," he says.

Ford, Rover and other companies expect PCPs will eventually account for one in every two private car transactions.

Ford, which tested Options regionally for two years before the national launch, reports that 68 per cent of early customers are renewing their original plans and seven out of 10 are choosing a newer model under the terms of the PCP. The remainder are either buying the original car or switching to other manufacturers.

"Our long-term goal is to retain an Options customer for life," declares Mr David Flanigan, managing director of Ford Credit – one of the reasons his competitors decided to join the PCP bandwagon so rapidly.

In the US, leasing now accounts for one in six new cars, and Ford recently began testing similar schemes in the Netherlands and Spain. However, PCPs are not a feature of the motor trade in most other European countries because of VAT and personal tax regulations.

**Kenneth Gooding** on the lightweight metal that is challenging steel

# All-aluminium on the road

Audi's new all-aluminium executive car will be the first of many. That is the confident prediction of Mr David Schlendorf, president of Alcoa's automotive structures division. Alcoa, the world's biggest aluminium group, and Audi have jointly developed the new Audi A8 – the German company hopes to sell 20,000 a year.

Alcoa is supplying skeleton-like spaceframe bodies for the Audi from a new plant at Soest in Germany on which it spent DM140m (about $81m). Audi expects to take up the rest of the capacity at the Alcoa plant with another niche car, which will be produced in slightly higher volumes than the A8, as well as being less expensive.

"Five years from now in Europe you'll see at least 10 aluminium spaceframe-bodied niche cars, either in production or announced by a number of manufacturers," says Mr Schlendorf.

Audi, which spent about DM1bn ($600m) on the A8, and Alcoa, decided to find a new way of making cars. As aluminium is initially much more expensive than steel, they believed it would be too costly simply to substitute aluminium components for those traditionally made of steel.

Instead, they designed a car that has many fewer individual components and structures than are used in a steel vehicle. They developed a spaceframe composed of fewer than 100 extrusions and castings compared with 300 for a stamped steel body. New manufacturing processes had to be developed to produce these spaceframes as well as new aluminium alloys, claimed to be safer than steel.

For car makers the new technology offers several advantages: it cuts the weight of a car's body by about 35 per cent compared with steel bodies without reducing the vehicle's size; it reduces tooling expense by as much as 50 per cent; and cuts the number of parts to be stocked and the time taken from design to production.

However, at present the process is economic only for production runs of up to 100,000 cars a year. But Mr Schlendorf says Alcoa is ready to spend another $1bn or so on a partnership with a car manufacturer wanting to produce the first high-volume (more than 100,000 a year) aluminium-bodied cars. He expects to set up at least two more plants in Europe within five years. By the end of the decade Alcoa may have installed a satellite production system to make aluminium bodies across Europe.

Meanwhile, Alcan of Canada, Alcoa's biggest competitor, is taking a different route to high-volume, all-aluminium car production, in partnership with Ford, the world's second-largest automotive group.

**This may be how car makers will meet US fuel economy standards**

During the Alcan annual meeting in Montreal on April 29, Mr Jacques Bougie, the chief executive, was handed the keys to the first Ford Aluminium Intensive Vehicle. This was one of 40 experimental vehicles identical in appearance to the Mercury Sable, a popular mid-sized US car – but 400lb lighter.

Ford and Alcan also believe that aluminium is suitable for building high-volume, rather than just niche, cars.

Ford, it seems, has overcome most of the problems associated with producing aluminium cars from an infrastructure which was set up to build them from steel. From the start the car company wanted to use its existing equipment, including big steel presses, which represented a huge investment, and has spent $25m to prove this is possible.

Mr Gian Frontini, until recently Alcan's vice-president, technology and engineering, but now director of fabrication and information technology, says the project involved two big challenges: how aluminium could be formed on steel presses and how to join aluminium. These have now been solved. Alcan proved it was possible for aluminium to be shaped on existing steel presses – even using the same tooling in some cases. Ford made a breakthrough with special light welding robots.

Mr Frontini says he has not been given any inside information by Ford about its future production plans but he expects that the group will gradually add more aluminium body parts to certain models and in five or six years a car with an all-aluminium structure will be launched.

Ford also plans a big expansion in its use of aluminium over the next five years to penetrate the sheet, or "skin," usages that have traditionally belonged to steel. This includes aluminium fenders, hoods, decklids and trim on the next generation of the Taurus car, likely to be launched in the autumn of 1995.

The group is already the biggest user of aluminium in the US motor industry. Its experimental vehicle, Synthesis 2010, which is a rolling test bed for new automotive technology – including a three-cylinder, two-stroke engine made of aluminium – has a body made of aluminium. Synthesis achieves weight savings of about 1,000lb compared with the present steel Sable, while having about the same interior dimensions.

Weight saving is the big incentive for the US and Japanese car industries to turn to lightweight aluminium. The US government is imposing ever-tightening fuel economy standards and aluminium enables carmakers to meet those standards by reducing weight without any loss of performance.

However, the main incentive for European carmakers is a conviction that car recycling will become a big issue in future. European companies are also enthusiastic about the high-performance characteristics aluminium gives to cars.

All the big aluminium companies now have co-operative programmes with either a carmaker or a vehicle components supplier. For example, Hydro Aluminium, part of Norsk Hydro, Norway's biggest industrial group and Europe's biggest producer of aluminium extrusions, has a vested interest in the success of the spaceframe concept, which could be a big user of extrusions in future. Hydro has also been co-operating on car spaceframe concepts since the mid-1980s with Renault in France, Porsche in Germany and Pininfarina in Italy and recently signed a co-operative agreement with Sumitomo of Japan.

Last year Hydro started supplying aluminium sub-frames from a Michigan factory for General Motors' new Corvette sports car. The sub-frame was previously produced from stamped aluminium sheet. Mr Ted DiGuiseppe, vice-president, sales and marketing, Hydro Aluminium Automotive Structures, says his company's subframe weighs only 11kg, or [illegible] less than the stamped aluminium equivalent and also saves 75 per cent on tooling costs – an important consideration with a model to be produced at the rate of only 20,000 to 30,000 a year. In total, the extruded sub-frame costs 18 per cent less than the stamped one.

Mr DiGuiseppe remains to be convinced that the Ford-Alcan concept of replacing steel "skins" with aluminium will not be too expensive. He admits, however, that companies such as Hydro which are offering aluminium spaceframes have the difficult task of persuading car companies not only to use a new material but also new manufacturing processes.

Alcan's Mr Frontini says: "The choice of technology is up to the auto companies. And Ford has firmly decided that the stamped unibody is the answer."

The debate will continue, but whatever the outcome, one way or another the automotive industry will use a great deal more aluminium in the future. 2000. A US Aluminium Association study showed the average 1991 US-built car contained 191lb of aluminium, 47 per cent more than in 1981. It is estimated 1994 cars will average about 235lb and Ford [illegible] that, by 2005, the average will reach 500lb.

GS300. LS400.

It's quiet in a Lexus LS400. Virtually all noise has been designed out.

For instance, steel and resin 'noise sandwiches' blanket the cabin. The drivetrain is in one straight line to reduce vibration. The engine is a smooth 4.0 litre V8.

In fact, you could hear a pin drop, if it weren't for the deep pile carpet.

But what's left is a silence no ordinary sound system could cope with. So Lexus created a system uniquely appropriate to the LS400. An ideal sound field ensures that, wherever you sit in the LS400 cabin, you hear the same rich sound quality.

At the corners of this field are seven speakers. Two dome tweeters for high sounds, four full range speakers and an eight inch subwoofer for a fuller bass sound.

The system produces 180 watts maximum power. (Well, there is a lot of silence to fill.) And, as if it isn't already a system to make even audiophiles question their domestic listening arrangements, it can be upgraded further. With a remote six-disc CD auto-changer.

But can a car's sound system ever be a reason to buy the car?

Certainly it can if it's indicative of the unheard of lengths the maker has gone to in developing the whole car.

Unfortunately, we can think of only one car which qualifies. See your Lexus dealer for a sound check.


# Driving a Lexus LS400 improves your hearing.

DIESEL CARS

# The debate hots up as sales rise

**Motoring's growth stock in Britain in 1993 was unquestionably the diesel car, writes STUART MARSHALL**

Initial industry forecasts of 200,000 sales for diesel cars in the UK last year were rapidly overtaken by events. In the end, 340,500 diesel cars were registered for a market penetration of 19.1 per cent.

But can the bull run in diesel cars continue?

The answer is almost certainly 'yes' though the signs are confusing. In the first three months of this year diesels took 21 per cent of registrations. Yet in March one of the leading contract hire companies, Leasecontracts, made some feverish public statements that spoke of "utter diesel madness" and forecast crashing residuals that would lead to "terrible financial pain."

So who is right?

The doomsters or the companies who continue to vote with their feet by telling employees – from junior rep to managing director – that in future, like it or not, they are going to have to drive diesel cars?

It is fair to point out that similar doom-laden forecasts were made a year or two ago by people in the contract hire business whom one expected to know what they were talking about. They turned out to be totally unfounded. Expert forecasters were embarrassed.

Technology has transformed the performance and refinement of today's diesel engined cars. Business motorists who reckon they are noisy, sluggish and smelly are either parading their prejudices or have never driven one.

It is true that most diesel cars still sound a bit gruff when they are started up from cold. Once they are driven off, though, even a trained ear finds it difficult to tell the difference between the best of them and a petrol-engined car.

**Doom-laden forecasts turned out to be totally unfounded, embarrassing some experts**

The strongest cards in the diesel's suit have always been reliability (there is no electric ignition to go wrong) and economy (up to 30 per cent lower fuel consumption is achievable in real world driving conditions). They are still winning cards – but are diesels as environmentally friendly as their advocates claim?

The cold, hard facts say they are actually cleaner than petrol cars with the most elaborate kind of exhaust catalyser.

But logic has to struggle with emotion: when clapped-out urban buses and ill-maintained, often overloaded lorries are seen to be spewing out stinking smoke, diesel cars become tarred with the same brush.

Flawed and superficial reports from bodies like Quarg (Quality of urban air review group) muddy the waters further. Earlier this year, Quarg expressed concern over the rapid growth in diesel car sales "unless problems of particulate matter and nitrogen oxides (NOx) emissions are effectively addressed."

In fact, although diesel cars emit twice as much NOx as petrol cars when new, they then improve while petrol cars get worse. Over their entire working life, total NOx emissions are no different.

On short journeys after cold starts, diesel cars produce one-tenth of an equivalent petrol engine's pollutants. And catalysers wear out or are damaged in service to a much greater extent than most motorists – and environmentalists – appreciate. Cowie Interleasing reported recently it had had to replace 75 catalysers on the relatively small number of cars so equipped in the large fleet it manages for corporate clients.

Managing director Neill Pykett says the replacement rate for catalysers – "one of the modern motor car's most delicate and expensive components" – was "unacceptably high."

Catalytic converters can shatter even in a low-impact collision and were liable to be damaged by driving too fast over a traffic 'hump' or mounting a kerb. But about 35 per cent fail "for quite inexplicable reasons," he says.

One car manufacturer had advised Cowie Interleasing to make maintenance provision for one 'cat' replacement per vehicle per three-year contract. As they cost between £300 and £900, this could hit private motorists hard.

It could also make the gloomy forecasts of a meltdown in diesel residuals look wide of the mark, if only because auction prices for three or four year old ex-fleet cars from about 1996-97 must reflect the cost of possibly imminent catalytic converter replacement.

As for the diesel cars themselves, they simply improve all the time. The French PSA Group (Peugeot-Citroën) made the running for a number of years. Though its products – Citroën AX, ZX, Xantia and XM and Peugeot 106, 306, 405 and 605 – are as good as ever, they no longer enjoy a monopoly of excellence.

PSA's 12-valve, 2.1-litre engine used in the Citroën XM and Peugeot 605 is about to be enlarged, which will give these large, comfortable and economical executive-class cars a mid-range performance boost without significantly increasing fuel consumption. The 2.1-litre unit would drop nicely into a Citroën Xantia because it is based on the same block as the 1.9-litre XUD engine.

**The strongest cards in the diesel's suit have always been reliability and good fuel-economy**

With automatic transmission, this could be the compact, elegant and high-performing diesel many a business motorist – whose employer's budget does not extend to a BMW or Mercedes – is waiting for. Mercedes-Benz offer super-smooth, four valves per cylinder diesels with four, five or six cylinders in the C-Class and E-Class.

In power output they are outranked by BMW's superlative, in-line 6-cylinder diesels which come with turbo-charging and intercooling; the naturally aspirated Mercedes engines are stayers rather than sprinters.

Vauxhall (Opel) buys smooth yet muscular four-cylinder turbo-diesels from its Isuzu associate and the new Omega diesels have in-line six-cylinder engines bought-in from BMW.

These Omega diesel saloons and estates, which can be had in the most luxurious trim levels, with air conditioning and automatic transmission, will be pace-setters among executive diesels at down-to-earth prices.

Before long, Rover, which currently buys four-cylinder engines from PSA for its smaller diesel cars, will be offering a diesel version of the 600 with the ultra-economical direct-injection engine, jointly developed with Perkins.

Rover pioneered the direct-injection car diesel engine. Audi and Fiat have them too, though the Fiat DI is not sold in Britain.

Other makers will be taking the direction-injection path to even better fuel economy than is offered by the indirect-injection engine. Injection equipment capable of delivering the very high pressures needed by the small, high-speed DI engine has been developed by Lucas and other suppliers and is now in volume production.

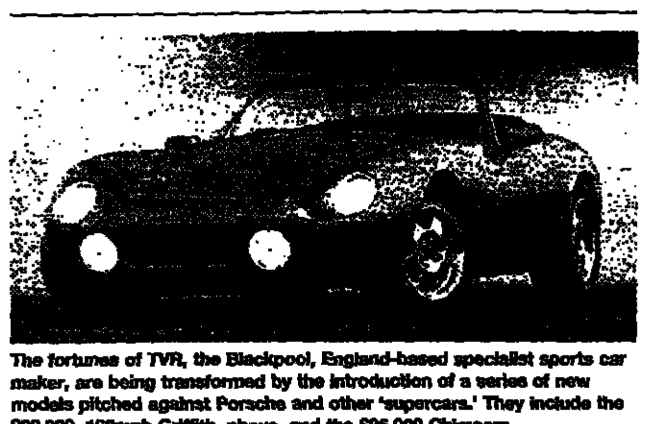
So far, the Japanese manufacturers have been less enthusiastic about selling diesel cars on the UK market than their mainland European competitors.

An interesting development is Mazda's decision to introduce a diesel version of the 626 to Britain with a belt-driven supercharger rather than the otherwise universal exhaust-gas driven turbocharger.

The main benefit of belt-driven supercharging is that the extra power and torque is on tap at very low engine speeds, whereas a turbocharger does not have much effect on performance below about 2,000 rpm.

The technique is well known; Opel had a supercharged diesel version of the Senator some years ago. It made the elderly and unrefined 2.3-litre engine much better, but not good enough to match the more sophisticated engines then available in Mercedes-Benz diesel cars.

Mazda claims the 626 supercharged diesel goes exactly like a petrol car under all driving regimes. Competing manufacturers will be keeping a close watch on developments.



The fortunes of TVR, the Blackpool, England-based specialist sports car maker, are being transformed by the introduction of a series of new models pitched against Porsche and other 'supercars.' They include the £33,000, 160mph Griffith, above, and the £26,000 Chimaera.

# New confidence in sports car market

Are congestion, environmental legislation and associated factors finally killing off the sports car and romantic notions of the open road?

The new product programmes of some of the world's biggest car makers, and the resurgent fortunes of some of the smallest, suggest the very opposite.

Porsche, the German luxury sports car maker, itself is now in the middle of a drastic overhaul, with new management, new methods and an impending new product range which, it claims, will return it to comfortable profits and 30,000-a-year output within the next four or five years.

If its predictions are borne out, they would reinforce the assertions of industry analysts that the sales slump was a manufacturer, not a market, problem, and that despite road congestion and other adverse environmental and legislative pressures, there will remain enough sports car enthusiasts – or at least people prepared to pay for "something different" – to justify manufacturers of all sizes investing in products for them.

Unlike mainstream sectors such as saloon cars, the 'sports car' market is so multi-faceted as to defy easy categorisation.

It embraces individual company production levels from a few dozen a year to approaching 50,000, and prices from under £10,000 for near-kit cars to the £400,000-plus "supercars" of McLaren and Jaguarsport.

At one end of the spectrum, UK-based Morgan is earning a modest but steady living from producing around 500 versions a year of a two-seater with its origins in the 1930s. At the other lies Japan's Mazda, which has almost single-handedly filled the vacuum left by MG with its 'cheap' – £16,000 in the UK – MX-5 roadster.

In the US, where MGs were once by far the biggest selling sports car, the MX-5 has achieved peak sales of 36,000 units in a single year. As with Porsche, its fall to around 22,000 in the US last year is believed to reflect more the ageing of the model itself in what is inevitably a fashion-conscious sector of the market than any weakening of the sports car market itself.

It is this consumer capriciousness, coupled to the oil crisis and recession of the early 1980s, which for a long time frightened most Western volume producers out of the sports car market.

Equally, more manufacturers are taking heart from the belief that there is a worthwhile market and from advances in simultaneous engineering and other technologies that favour smaller production runs.

For example, there were the decisions of resurgent Chrysler to put into production its outrageous, eight-litre, V10-engined Viper open two-seater sports car and, in the past few weeks, to add a coupé version of the same model. More than 1,000 Vipers have already been sold, despite a £55,000 price tag.

The same confidence inspired Ford to invest in a new Mustang which harks back to the sports car concept of the original 1960s models. Meanwhile, General Motors' sports car, the Corvette, regularly finds a 20,000-plus market in the US. A two-seater sports car is to enter production next year at BMW's 80,000 cars a year plant in Greenville, South Carolina.

Problems of definition blur the size of the sports car market in Europe, because many manufacturers consider coupés like the Opel/Vauxhall Calibra and the new Ford Probe as legitimate successors to some of the traditional open two-seater market.

When these are included, industry monitoring group Automotive Industry Data suggests, there is an available west European market of between 250,000 and 300,000 units. Certainly it is big enough to tempt back some large manufacturers who had previously all but abandoned this market. Fiat, which owns Ferrari, Lancia and Alfa Romeo, is launching a two-pronged attack with an all-new Fiat coupé and an equally new open two-seater Alfa, the Spyder.

Thanks to new engineering and production technology, financially hard-pressed Fiat has gone ahead with projected volumes of around 20,000 a year. Indeed the Fiat coupé, which uses Tipo hatchback floorpan and mechanicals, is a pet project of Fiat Auto managing director Mr Paolo Cantarella. It may not make much money in itself, but he expects the glamour of the sleek two-seater, now on sale to benefit the group's more mundane but bigger volume models struggling for a bigger share of Europe's mainstream market.

Similar calculations are evident in other parts of the industry. All last year General Motors was touting around Europe's motor shows the Tigra, a small two-seater based heavily on GM's small European hatchback, the Spanish-built Opel Corsa. If the public liked it, GM promised, the company would build it. It has now given it the green light.

Perhaps the most eagerly-awaited new sports car of all will emerge in the UK next year – the first genuinely 'new' MG since the demise of the MGB more than a decade ago. Rover group, now part of BMW, is taking an unusual route to market with the range of small MG sports cars it intends to launch in Europe and Japan in 1995, some 15 years after killing of the "B" of which more than 500,000 were produced.

The car's body is being designed, developed and manufactured by Motor Panels, the Coventry-based subsidiary of the Mayflower engineering group. Mayflower is investing up to £24.2m for the initial engineering design, development and tooling work, including the production facilities for the body shells.

The two companies expect to share the profits from the project, code-named PR3. The car will use a 1.6 litre version of Rover's avant garde K-series engine, cost around £15,000 and is envisaged to be produced at a rate of 15,000 to 20,000 a year.

Rover has already paved the way for the MG marque's revival with the launch last year of the RV8, an updated, limited production version of the MGB using Rover's V8 engine from the Range Rover.

**John Griffiths**



tions. duction runs of up to 100,000 tooling in some cases. Ford trial group and Europe's big- reach 500lb.

# CHEMICALS AND THE ENVIRONMENT



After decades of assaults by lobbyists, chemical companies' biggest headache is now the mass of laws curbing their operations, says **Daniel Green**

## The day of the lawyers has arrived

Fear is an important factor in the chemicals industry's management of environmental matters. Industry leaders and their companies can face vast liability suits if there is an accident. Even everyday operations can become bad publicity.

Some of these fears have begun to fade in the mid-1990s. In their place is the spectre of being overwhelmed by national and international legislation.

Chemicals companies already employ thousands of people in the environmental monitoring and control of plant and processes. Yet the pace of introduction of new laws is undiminished. Executives are caught between the need to demonstrate that they are cleaning up their businesses and the desire to limit the administrative burden that this requires.

A decade ago, the agenda was set by the lobby and pressure groups such as Friends of the Earth and Greenpeace. They dogged chemicals manufacturers, pointing an accusing finger at smokestacks, dumped by-products and river discharges.

Although the industry was jolted, its solution was in the end simple: create a department whose job it was to fight back in the propaganda war.

The result was a whole series of initiatives ranging from case studies of substances once dumped but now used productively, to the creation of the "Responsible Care" movement – a voluntary programme covering health, safety and the environment – now embraced by virtually the entire European chemicals industry. "We initially resented the obligation for publicity," says Mr Michael LaGraff, general manager for health, safety and environment at BP Chemicals. "But now we can demonstrate our progress."

The old publicity machine still requires oiling. But individual feel-good stories have become the environmental equivalent of motherhood and apple pie, and everyone has them.

Most large companies can point to impressive track records in cutting emissions and recycling waste, and they publicise them in glossily produced reports.

But today the departments devoted to generating a response to pressure groups have largely gone. The teams of specialists have been dispersed. Managing emissions has become an everyday part of general management.

The pressure groups' legacy is the determination of politicians to legislate and regulate the industry. That means that chemicals companies are increasingly turning for help to lawyers and government affairs experts rather than public relations executives.

At the top of the European list of priorities is a proposed directive from the European Commission largely based on the UK's 1990 Environment Protection Act (EPA).

The UK is the model because the EPA introduced the concept of integrated pollution control, the notion that it is not enough to legislate for the reduction of emissions of one kind or another. If airborne emissions are cut but at the same time water discharges increase, the object of pollution control legislation is not achieved. The solution is to integrate the monitoring control of chemicals plants, rather than to look at each substance produced individually.

Under UK law, "you have to formalise your systems with regard to the environment," says Mr Neil Budworth, safety officer at the UK operations of German chemicals company Bayer. "You have to take into account all emissions, where they go, how they are controlled, what the management systems are and what the history of complaints is."

The company compiles a report that includes not only these details but carefully thought out proposals for controlling the emissions. The report is submitted to the UK government for the proposals to be approved, or otherwise. Once authorisation is secured, it must be followed by quarterly monitoring of the plant and the deposition of information for public inspection.

The task is enormously complex, says Mr Lindsay Fortune, head of health, safety and the environment at chemicals company Courtaulds. "You are right at the fringes of science. Sometimes the legislation requires you to do work that there is no science for."

He gives several examples of questions whose answers have yet to be clarified fully. How should emission limits relate to the quality of the environment? How should trigger points change with local population density? If discharges are to be made into rivers, how should limits vary according to the capacity of the river to carry the effluent away? In air emissions, how should limits vary according to the way hill and mountain ranges and climate conspire to concentrate or disperse materials?

The industry's concerns about how such legislation works are not limited to the scientific. The costs involved are of increasing concern: chemicals companies already spend up to seven per cent of sales on health, safety and environmental matters.

"There are more than 300 environmental directives or laws already at the EU level alone. Between one and two per cent of the workforce in chemicals companies is concerned with the regulations now," says Mr Louis Jourdan, director of technical affairs at the Brussels-based European industry organisation, Cefic.

Rising costs are more than a matter of the quantity of laws enacted. In the UK, companies should control emissions using the "best available technology not entailing excessive cost", says Ms Tamar Posner, executive director responsible for health, safety and the environment regulation at the UK Chemical Industries Association. But the proposed European directive does not specify that or say how costs should be considered, she says.

"This is the biggest issue in the European directive", says Courtaulds' Mr Fortune. Conforming to the rules in the UK is expensive enough. Even compiling a report for the UK government "takes of the order of six man-months to prepare. Each site typically needs 10," he says.

Yet this concern over costs sits awkwardly with the chemicals industry's acknowledgement that laws are needed. "These laws are not in principle a bad idea," says the Chemical Industries Association's Ms Posner. "But what's happening is too much. The laws are not wrong, undesirable or unnecessary. But they are coming at such a pace that it makes it difficult to regulate and implement them. In 1993 alone there were about 40 EU instruments being adopted or going through development."

This view is underlined at the European level. Mr Jourdan of Cefic says "We like the [proposed] directive. There is nothing fundamentally wrong with it. But it is too detailed. There are provisions for the classification of substances produced in very small amounts for research and development – they are not going to be spread over fields and rivers."

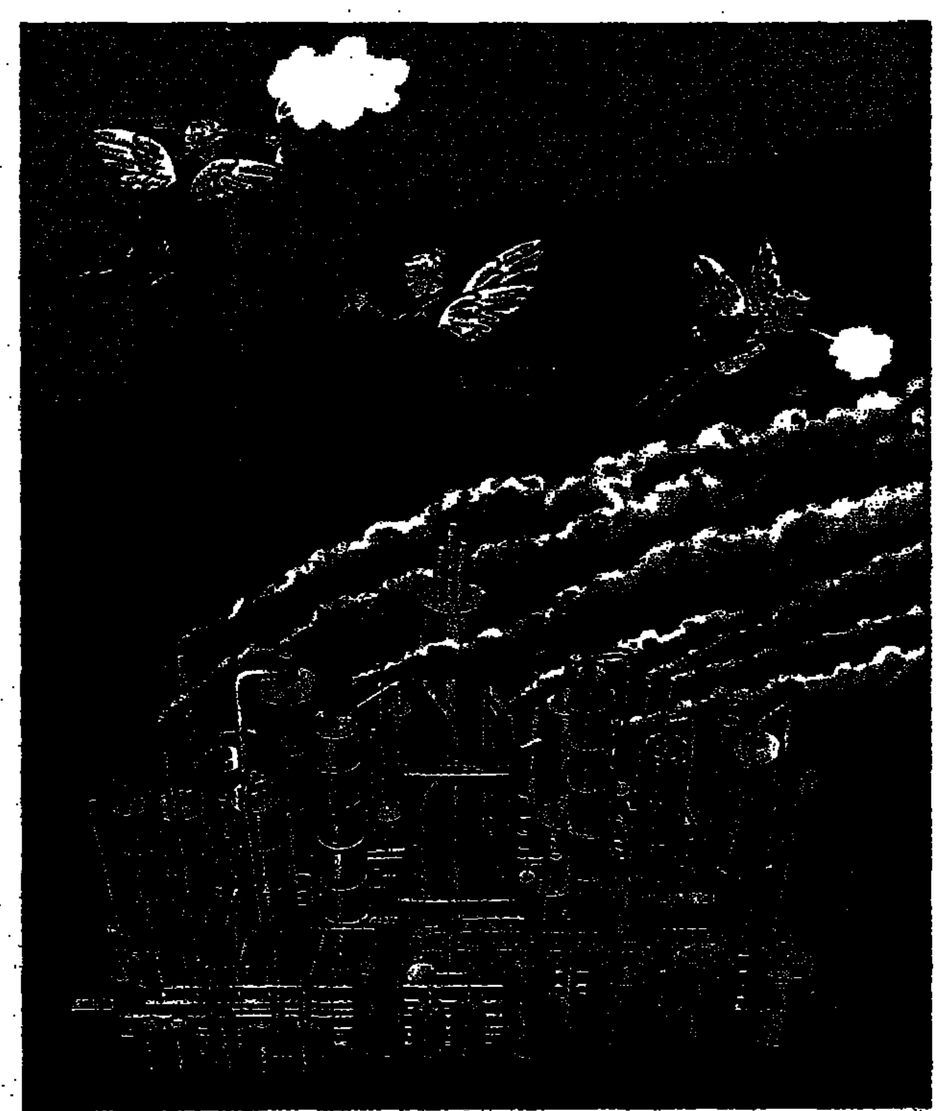
The alternative, according to Cefic, is a voluntary scheme along the lines of the Responsible Care programme. "Ninety per cent of actions in a chemical plant will remain unregulated anyway," says Mr Jourdan. "We want to replace, pilot or complement regulations with a voluntary agreement."

Nevertheless, the industry and its representative bodies know that they will probably not get their way. The laws are more likely to get tougher and more complicated than simpler. One of their greatest fears is that the European Commission will look favourably on the US systems of a Toxic Release Inventory (TRI), in which every company provides exhaustive details of substances released.

Whatever ends up in the directive, the industry sees it as the start of yet more work. "The next stage will be implementing the whole thing," says Mr Fortune.

The industry is determined to lobby Brussels in its attempt to limit or at least delay the impact of the next wave of regulation, but it is preparing for a sharp increase in its workload anyway.

The lobbying will continue because companies face the need to allocate responsibilities, define practices, identify procedures and find the resources for implementing and maintaining environmental management, says Mr Jourdan. "All of this needs a structure. We are asking for a pause in the production of legislation. Our job used to be easy, it was about emission limits. Now it is about standards and principles."



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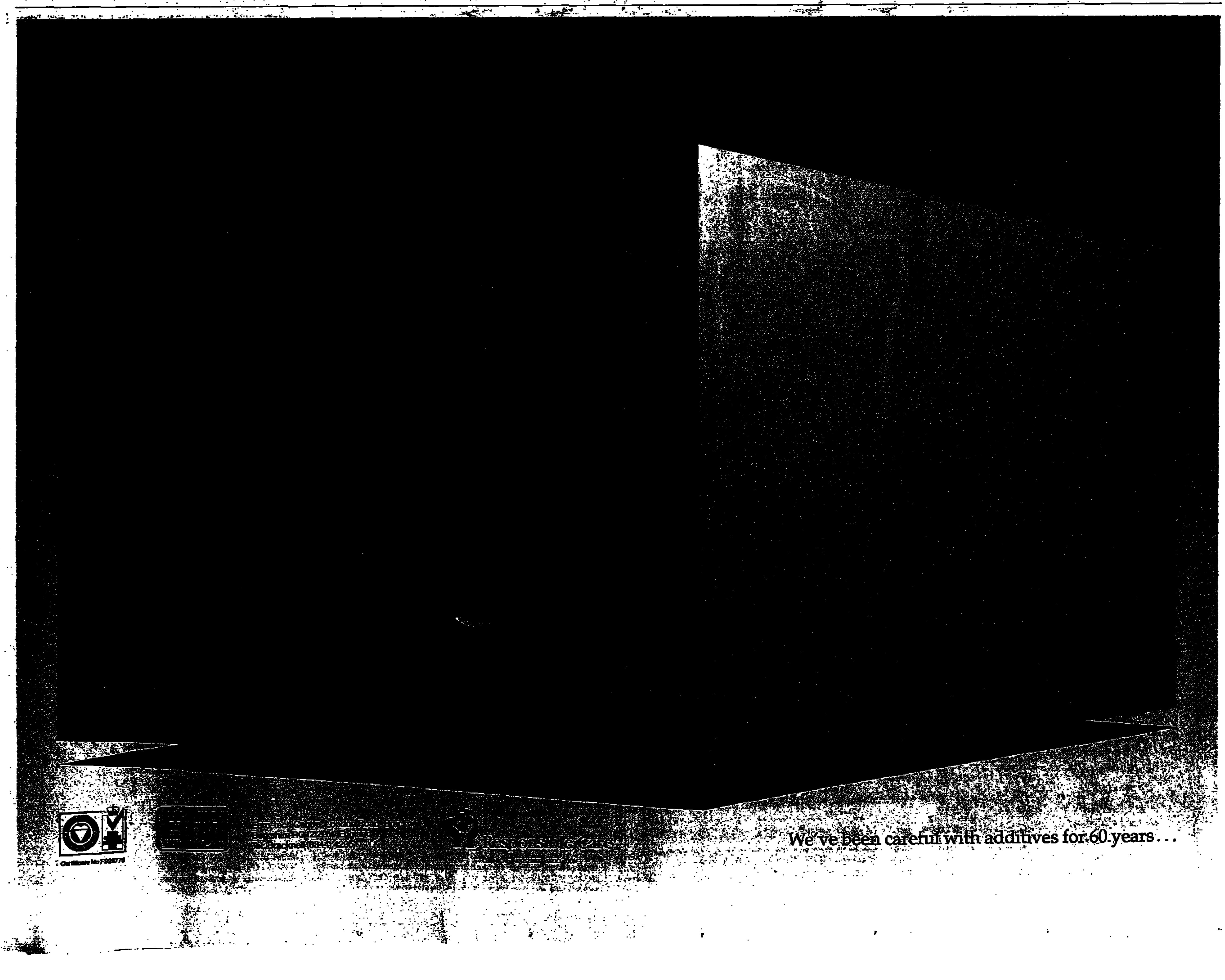
□ *Illustration:* Robin MacFarlan



Responsible Care, born in Canada, is turning into a world-wide code of practice, writes **Mike Ward**

# Touchstone of an industrial revolution

Win over the workforce and you will have done much of the hard work on implementing Responsible Care, the industry's international code of practice on environmental protection.

That's the advice of Ray Grainger, the UK Chemical Industries Association director of Responsible Care and sector businesses. He adds: "While there are a number of important target audiences for the Responsible Care message of improved environmental performance, the employees can be a company's best ambassadors and advocates."

It is hardly surprising that, as a North American creation, it is the Canadian and US industries that are blazing the trail to Responsible Care.

Initiated in Canada in the mid-1980s and embraced by the US in 1988, Responsible Care is now catching on throughout the rest of the world, South Africa being the latest to join the converts.

Canada has in place all its codes of management practice, and clearly most US companies are in the advanced stages of implementing the programme. Indeed, the US Chemical Manufacturers Association is pushing ahead with third party verification of management systems and has said the companies that fail to implement the programme properly would eventually be candidates for expulsion from the Association.

Responsible Care reflects a cultural revolution that has taken place within the chemical industry.

The glossy environmental brochures that are now being published by the major chemical companies would not have been possible five to 10 years ago. Some chemical companies shied away from providing what they regarded as sensitive information, others argued that regulatory compliance was enough, while others said the information would be far too technical to broadcast.

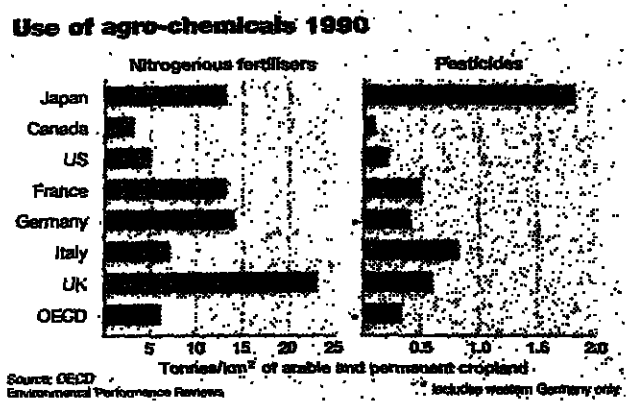
However, it soon became clear to the most far sighted industry executives that there was a danger that companies could lose their licence to operate if they did not demonstrate a commitment to improving environmental performances. Consequently, the concept of Responsible Care was developed to provide a framework for companies to achieve policies of self improvement in key areas of safety, health and the environment.

**CHEMICAL COMPANIES' ENVIRONMENTAL SPENDING**

| Company | Operating Costs \$m | Capital Costs \$m | Total Costs \$m | Sales \$bn | Spending as a % of sales |
|---|---|---|---|---|---|
| Hoechst | 943.17 | 307.74 | 1250.91 | 27.84 | 4.49 |
| BASF | 635.43 | 88.27 | 723.70 | 10.53 | 6.87 |
| Bayer Group | 81.62 | 285.97 | 367.59 | 24.79 | 1.48 |
| ICI | 120.12 | 120.12 | 240.23 | 12.66 | 1.90 |
| Dow | 400.00 | 157.00 | 557.00 | 18.06 | 3.08 |
| Rhône-Poulenc | 188.20 | 135.94 | 324.15 | 14.23 | 2.28 |
| Du Pont | 1000.00 | 500.00 | 1500.00 | 37.84 | 3.96 |
| Ciba | 201.07 | 512.49 | 713.56 | 15.33 | 4.65 |
| Akzo (HSE) | n/a | n/a | 266.62 | 8.89 | 3.00 |
| Sandoz | 236.95 | 85.30 | 322.25 | 10.22 | 3.15 |
| Roche | 204.45 | 162.48 | 366.94 | 9.69 | 3.79 |
| HULS | 210.52 | 35.19 | 245.71 | 6.14 | 4.00 |
| DSM | 80.75 | 53.83 | 134.58 | 4.33 | 3.11 |
| Exxon | n/a | n/a | 156.00 | 10.06 | 1.55 |
| Monsanto | 233.00 | 53.00 | 286.00 | 7.90 | 3.62 |
| Union Carbide | 149.00 | 51.00 | 200.00 | 4.64 | 4.31 |
| Elf Atochem | n/a | n/a | 389.65 | 8.00 | 4.87 |

Source: Company reports

**Use of agro-chemicals 1990**




Source: OECD Environmental Performance Reviews

Success, however, requires support from all in the company and this is not so easy to achieve. Some sections of the chemical company are regarded as more difficult to convince of the merits of Responsible Care.

"It is easier to convince chief executives and those involved in direct implementation such as those workers in production. More difficult is the middle management which tends to be more conservative than other sections of the workforce," an industry executive noted.

Surveys done by the US Chemical Manufacturers Association and others in the US are sending out confused signals. A poll conducted by the CMA of shopfloor workers suggested that half those polled actually doubted the industry's commitment to Responsible Care and that one third claimed to be unfamiliar with Responsible Care.

Yet a poll of top executives conducted by Chemical Week and Andersen Consulting came up with greater support for the programme. More than two thirds of executives polled said that meeting Responsible Care objectives will make a significant contribution to company success, and that their companies would meet or surpass those objectives.

Just over half the sample agreed that Responsible Care was having an impact on the company's environmental performance and the public image with neighbours had improved. Only one in 10 executives said they believed that Responsible Care would be more effective if enforced by regulations, with almost three quarters opposing the view.

Part of the problem may be that employees are aware of the good practices associated with Responsible Care. It's just that they haven't got used to the label yet. "Responsible Care is consistent with what we do. It might not be clear what the codes are called but the workers do recognise that there has been a sea change of working practices and know what to do," explains Charles Keene, of the Swiss multinational Ciba.

"Years ago people thought environmental management was something to do with the environment department but now it's all embracing and influences all decisions throughout the company."

This view is supported by Math Heynens, head of DSM's corporate environmental department. "At the manual level there are still some people that haven't made the link between our safety, health and environment practices and Responsible Care. Although there are plenty of Responsible Care themes in our own care system we are looking at both to see where there are parallels."

John Bishop at BP Chemicals believes that staff education and training is one answer to Responsible Care recognition. In the most recent employee attitude survey, 74 per cent of staff agreed with the statement that BP Chemicals has a clear environment policy – with 10 per cent disagreeing. On the question of awareness of Responsible Care, 55 per cent of BP staff claimed to be aware of the programme to at least some extent.

"I was pleased with how high the awareness is. The process of linking health, safety and the environment with responsible care has been going for some years and we are now explicitly trying to make that connection."

Full success, however, will require that connection to be made. Cefic senior director Louis Jourdan believes that industry's commitment to Responsible Care is borne out by the support it has in spite of the recession. "Responsible Care, even in the recessionary times of the past few years, has been maintained as a high priority. It has not been relegated to the backburner."

He concedes, however, that the speed of implementation in Europe is variable. The UK is way ahead of the rest of Europe with the Chemical Industries Association taking a very active role in promoting the programme both within its membership and in public.

Although still in its early days, Federchimica, the Italian Chemical Industries Association, has managed to get a great deal of media coverage for the programme.

France's trade association, UIC, on the other hand, is taking a more timid approach, while VCI, the German association, considers Responsible Care to be an internal matter for companies and has not been too public in its own pronouncements.

Dow Europe's Claude Fussler believes that continental Europeans find it harder to embrace the basic tenets of a voluntary system that seeks continual improvement than the North Americans and British. "The Anglo-Saxons are able to capture the mood for such continual improvement more easily."

Fussler is clearly a vocal advocate of Responsible Care and is seeking to introduce the concept to Dow Europe's customers.

"Our programme Responsible Care in action has been designed to help our customers assess their environmental performance and develop plans for continuous improvement," he says. Among the areas targeted for improvement are product stewardship and pollution prevention.

Responsible Care is not without its critics. Dr Michael Braungart of the Hamburg Environment Institute believes the chemical industry is missing a great opportunity to show what a valuable contribution chemists can make to society. "Responsible Care is almost a religion to companies they are addicted to it yet all it will do is shore up old products. What society needs is new products that are greener."

He suggests that companies developing technologies for plastics recycling are wasting the talents of their scientists and their money.

"They are investing in high tech solutions for low tech products." Clean technologies, he says, must embrace a new business approach. Focus should be on providing services rather than selling products. "With Responsible Care there is no incentive for companies to produce better products."

**While there are a number of important target audiences for a company's environmental performance, its best ambassadors and advocates should be its own employees**

He cites as an example the use of chromium in leather tanning. In the last century, leather was tanned using oak extracts and the shoes were recyclable. Use of chromium means recycling is not possible unless expensive chromium extraction procedures are employed.

Rather than investing in such recovery technology, Braungart thinks a more sustainable solution would be to make a synthetic chemical that mimics the action of the oak extract, provide better quality shoes that can be easily recycled. "The chemical industry has the potential to provide many solutions."

In a bid to explore the potential of clean technologies, waste minimisation projects and other pollution prevention schemes, Cefic has been acting as a catalyst in the establishment of research and development consortia in the areas of sustainable technology.

So far, Cefic's Dr David Bricknell has managed to get companies to agree in principle to the idea of cooperating with other companies and academic researchers in pre-competitive R&D and select some potential areas for work.

Possible projects that could emerge from this Sustech programme include waste minimisation technologies embracing internal process recycling, new process technologies based on biotechnology and the development of tools for environmental management such as product design, life cycle assessment and improvement.

"Introduction of product stewardship measures – that is, the management of safety, health and environmental impact of products from their development, production and use to disposal – is one of the most difficult features of Responsible Care. "We have to know more about what happens when customers dispose of our products after they have finished with them," explains Ciba's Keene.

Responsible Care could, however, come to grief at the hands of the Commission's competition directorate, DG IV. "We have been informed recently that DG IV is against voluntary proposals because they are worried they may have anti-trust implications. A voluntary industry/government initiative in Denmark on volatile organic compound emissions is now being investigated by DG IV officials. It is possible that Responsible Care could suffer the same fate," Jourdan warned.

**Mike Ward** shows how greater candour can win public trust

# Disclosure is the best policy

Four years ago, Bryan Sanderson, BP Chemicals chief executive, told his executives to earn the public's trust so that the company could keep its licence to operate.

Similar messages have gone out in other parts of the chemical industry, with companies telling employees, neighbours, customers and other influential groups about the safety aspects of their operations.

International chemical companies now routinely reveal their progress in improving environmental performances. Most publish annual environmental performance reports although no common format for the industry exists. Indeed, the glossy brochures and reports that have emerged so far have been of varying scope and detail.

BP Chemicals publishes an annual report which details all its emissions from its leading sites in the US and Europe. ICI sens every shareholder and employee an annual corporate environment report, which contains total ICI emissions, although specific emissions are available on request, while each site is encouraged to local report for its neighbours.

"The site reports are very important indeed. They are ... a fundamental part of the environmental communications programme," says Dr Richard Robson.

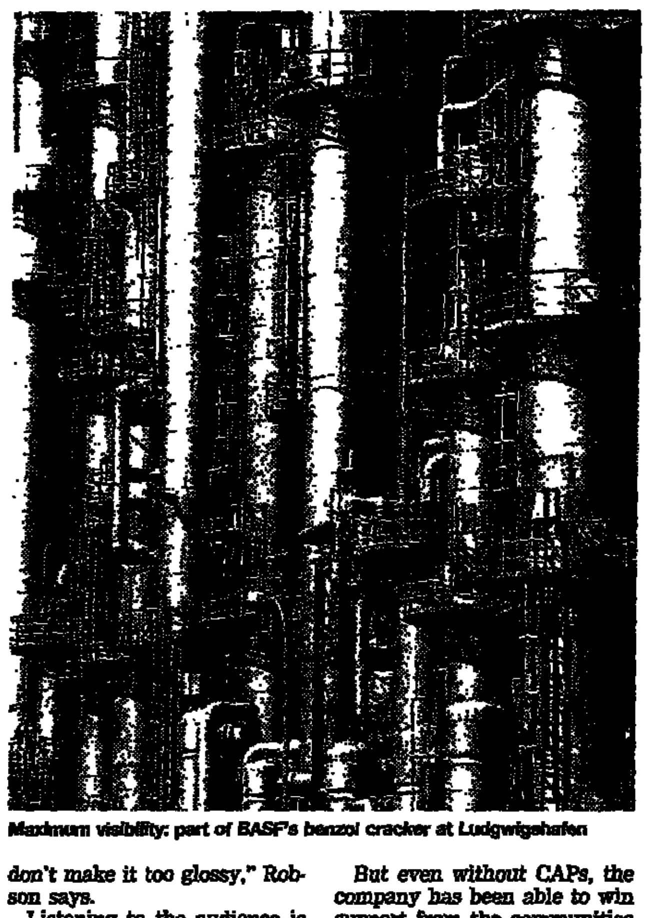
It can also help win support from some unexpected quarters. Friends of the Earth campaigner Guy Linley-Adams, commenting on ICI's Teesside report which revealed a 57 per cent cut in the site's emissions, told a local newspaper: "All companies should produce reports like this. ICI is ahead of the game in that respect."

Others prefer to use indices developed by the French multinational Rhône-Poulenc and adopted by the UK Chemical Industries Association to demonstrate an aggregate UK industry performance. They are used to identify trends rather than detail actual volumes of waste emissions.

Critics of this system claim that it can mask serious problems. Rhône-Poulenc, however, believes that they can give managers an efficient measure of how well environmental management is being carried out. In the base year, all emissions are considered by the nature of the hazard and method of disposal, then each year the environmental impact of waste in that year can be compared as a percentage of the base year.

Ironically, despite the large sums spent by some companies on producing attractive reports, it is surprising how few bother to find out whether they are providing what the public wants.

Last year, ICI asked readers what they thought of its corporate environmental report and then tailored the subsequent report according to their replies. "The messages were clear: keep it simple, keep it short, make it easy to understand, put detailed data into appendices at the back, and don't make it too glossy," Robson says.



Maximum visibility: part of BASF's benzol cracker at Ludwigshafen

Listening to the audience is a key part of the communication process, says Claude Fussler, vice president for environment, health and safety at Dow Europe, adding that Responsible Care "is first and foremost a performance-driven programme. it is not a public relations exercise. Our efforts to engage the public in dialogue are an attempt to gain an outside-in perspective of our company and its performance."

Dow has imported into Europe the Community Advisory Panel (CAP) concept from the US. These are volunteer advisory groups comprising citizens from communities neighbouring a facility. They tend to meet regularly to discuss plant operations, community involvement, emergency preparedness, environmental issues and other subjects related to the site.

Dow Europe's first advisory panel was set up at its German site in Rheinmünster. Stade, also in Germany , has also followed suit forming a CAP last year, while its sites in Barry, South Wales, and Tessenderlo, Belgium, are members of joint public panels in their respective communities.

CAPs can be useful allies, notes John Bishop, BP Chemicals general manager communications. "A CAP at our Lima site in the US called on the US environmental protection agency to grant the company a licence to operate one particular process that was under investigation."

But even without CAPs, the company has been able to win support from the communities surrounding its sites. A survey commissioned by BP Chemicals and conducted by independent pollsters found that 74 per cent of the company's neighbours in Grangemouth regarded the company as trustworthy. This compares very well with surveys of the industry's public acceptability in the US and the UK.

Despite these efforts chemical companies still have an image problem, although it seems to be improving, according to surveys canvassed recently by the US Chemical Manufacturers Association and Britain's Chemical Industries Association.

A survey conducted by US pollster Roper Starch Worldwide late last year suggested that US public concern for the environment may have peaked and that enthusiasm for regulating business may be waning. The pollsters found that 44 per cent of those surveyed had a favourable view of the chemical industry – up 7 points from an all time low rating in 1992.

A similar trend may be occurring in the UK. According to a survey by pollsters Mori on behalf of the Chemical Industries Association, more British people say they have a favourable impression of the chemical industry rather than an unfavourable one. Mori reports that the 29 per cent of those polled gave a favourable view of the chemical industry, eight points more than in 1992, while 28 per cent harboured an unfavourable attitude, 2 per cent increase on the previous year.

**Most international chemical companies now routinely publish glossy annual reports on their progress in improving their environmental performance, although no common format has yet been introduced and the reports are of varying scope and detail**

In 1991, only 18 per cent viewed the British chemical industry favourably, while 27 per cent said they had an unfavourable impression. Although the industry might be pleased at the companies may be able (it was the first time since 1988 that favourable replies were in the majority) has its standing is well below 1979 when approvals reached received almost 50 per cent.

The European chemical industry spends more than £2bn, or 12 per cent of its total capital expenditure , on the environment. British companies spend 16 per cent. However, many UK executives wonder what else they must do to win public approval.

The leaders believe the answer lies in better communications, although, as the CIA advises its members, "good communications can never compensate for a poor environmental or health and safety performance".

Industry executives believe that the better ratings are due to the industry's candour. However, some companies believe the industry's story would be more credible if it could be verified by independent third parties.

But while the industry agrees on the need for Responsible Care, there are differences about eco-audits and verification.

Dow Europe's Fussler and Norsk Hydro's public affairs director Stein Iver Aarsaether support third party verification of the environmental reports, but not at any cost. "It is important to have credibility and consider how best to achieve that cost effectively," says Aarsaether.

Fussler says: "Despite all the built-in controls, including supervision by the authorities, validation by a competent outside firm may provide an additional layer of confidence for the reader."

Louis Jourdan, senior director, technical affairs at Cefic, the European Chemical Industry Council, says that the European Commission is keen to go beyond the voluntary efforts of the industry.

"In the EU we will have third party verification either through voluntary acceptance of the Commission's eco-management and audit scheme or by certification of an environment management system standard."

Cefic is trying to encourage all its members to establish systems that will allow them to join the EU's environmental management and auditing scheme (EMAS). Many companies appear more amenable to have certification of the methods they use to conduct their own environmental audits than to having third parties repeating the process through an audit. Says one industry executive: "Anyone who is responsible and providing the information would not knowingly provide data that are wrong."

Japan earns high marks from OECD watchdog, says **William Dawkins**

# Once bitten, twice shy

Japan's chemicals industry can take some – but not all – of the credit for the country's better than international average progress in curbing pollution.

A recent study of Japanese environmental performance by the Organisation for Economic Cooperation and Development praises the country for its "remarkable" achievement in reducing air pollution, from industrial plants, cars and power stations.

"These successes have proved that environmental policies and economic development can be mutually supportive," says the study, one of the first fruits of a 1991 OECD decision to run environmental checks on all its members. Far from damaging industrial competitiveness, rigorous curbs on air pollution have benefited car and pollution control equipment producers, says the report. Yet the study gives Japan below average marks for its performance on industrial waste, where the chemicals industry plays a larger part than most, and dependence on agricultural chemicals.

Cleaner than it looks: Mt Fuji behind its industrial landscape Picture: Mike Blenk

Over the past 20 years, Japan has shown the highest average growth of any member of the group of seven rich industrialised nations, even counting the blow to its economic record inflicted by the recent recession.

Yet it has also over this period more than halved sulphur dioxide emissions and nearly halved nitrous oxide pollution. That is the best performance of any member of the OECD, says the study. Industrial processes account for between 40 per cent and half of air pollution in Japan.

The OECD attributes this impressive track record to Japan's tough regulations, such as those on car exhausts and factory chimneys, plus the high technological standards of the water and air cleansing equipment industries. This is the reward for the 3.4 per cent of total capital formation that Japanese industry invests in pollution control, described by the OECD as among the highest in the industrialised world.

Private companies account for the lion's share of this spending. Within this, however, the chemicals industry spends far less than its foreign competitors. Japan's chemical companies invested four per cent of annual turnover on the environment in 1991, according to European chemicals industry figures, compared with 10 per cent by their US counterparts and 12 per cent by European chemical producers.

Japanese companies also dump more industrial waste as a percentage of gross domestic product than the OECD average, a mark of its relatively lax industrial waste policy. It remains among the biggest users of agrochemicals in the OECD, a mark of the need to maximise yield from scarce farmland.

That said, Japanese chemicals companies have made spectacular progress since the traumatic environmental disasters of the 1950s and 1960s, which still dog the industry's reputation.

Cases such as the Minamata disaster, where mercury was pumped into the sea off southern Japan poisoning the people of a nearby fishing village, or the Yokkaichi air pollution scandal, in which residents of an industrial town in central Japan were made ill by air pollution from chemical plants, spurred industry and government into action faster and earlier than their western counterparts.

Those disasters led to tough legal controls on water and air pollution and also taught industry that the costs of compensating victims far outweigh the cost of prevention.

Chisso, the chemical company responsible for Minamata, could have avoided the mercury disaster, if it had spent Y100m annually on pollution control, estimates the government's environmental protection agency. Instead, Chisso is still faced with an annual compensation bill of Y11.9bn, 100 times the cost of prevention, it says.

As a result of the post-Minamata lesson, chemical accidents or labour injuries in the Japanese chemicals companies are today low by international standards. The average number of lay-offs lasting more than a year, caused by injury, was 0.5 per 1m working hours in 1992, according to the Japan Chemical Industry Association.

While the record has been good over the past 20 years, Japanese environmental policy has barely evolved since the post-Minamata period, argue critics such as Mr Ian Austin, the Tokyo-based director of Japan business development at Dames & Moore, the US environmental consultancy.

The outstanding example is the fate last November of the environmental protection bill, watered down in response to pressure from business lobbies, unwilling to take on extra costs at a time when the yen's strength is harming their competitiveness.

The bill contained a general commitment to a health environment. But the government quietly shelved two controversial provisions, contained in early drafts and supported by the environment agency, for a tax on carbon dioxide emissions and obligatory environment reports on new industrial projects.

The ministries of international trade and industry, transport, and construction ministries, successfully lobbied for the removal of those clauses on the grounds that they would hamper investment in new plant and further stimulate the already worrying shift of industrial production out of Japan to cheaper foreign locations. A Miti advisory panel warned that a carbon tax would provoke an "international migration of industry".

Instead, the new law calls on "businesses to assess the environmental impact of a project and take proper consideration to conserve the environment". It also says that the government should "make efforts to obtain the understanding and co-operation of the people" when it sees the need to introduce a carbon tax.

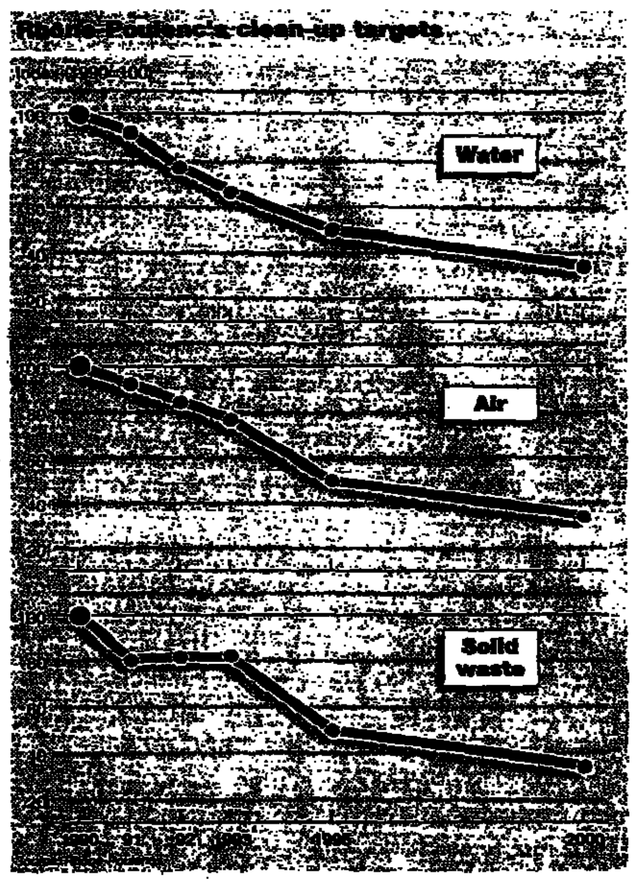
Such a tax is certainly not on the agenda of the present government. This is not surprising, since Japan has yet to recover from the most severe recession in the period since the Minamata disaster produced its salutary awakening of environmental policy. It could be a sign of how environmental policies take second place to economic survival during tough times.

■ **Case study:** RHONE-POULENC OF FRANCE

# Staying ahead of the law

Rhône-Poulenc, one of France's largest chemicals groups, has also been one of the most ambitious with respect to environmental policy. In 1992, it set itself a target of reducing emissions in water, air and solid waste by 50 per cent by 1995, taking 1990 as a base year, and by 65 per cent by the year 2000.

According to Mr Jean-Marc Bruel, vice chairman and head of the group's environmental policies since the early 1980s, the setting of fixed targets and the publication of the data represent the second major step in the field of environmental protection. The first step dates back to 1981 when Mr Jean Gandois, then chairman, appointed a manager to deal exclusively with environmental issues.




Since then, Mr Bruel claims that Rhône-Poulenc, along with other French and European chemicals companies, has made significant progress in reducing pollution and protecting the environment. "We have always been ahead of legislation," he says, citing the company's adoption of the responsible care programme, a charter for environmental protection in the industry which was first introduced in Canada. "No other industry has made the kind of progress that has been seen in Chemicals."

He says that efforts in France to respond to the problems of environmental pollution from the chemicals industry have been assisted by an administrative system whereby regional government has the ability to fine and to subsidise polluting industries.

Rhône-Poulenc is itself spending a substantial amount on reducing pollution and increasing safety, despite the constraints of recession and the group's debt burden. Over the past two years, the company has committed FFr3.6bn on environmental and safety projects, the lion's share in France and the US.

But how effective has this expenditure been? The publication last month of its annual environmental report shows a mixed result. "We are on target with respect to water pollution, for air emissions we are a little behind our target, but we can make this up. It is solid waste has proved the problem," says Mr Bruel.

Mr Bruel's conclusions are drawn from a detailed series of pollution and safety indices, audited by the accountants, Coopers & Lybrand, and in line with the format adopted by Cefic, the European chemicals industry federation.

At the end of last year, according to these statistics, the index of water pollution showed a 32 per cent decline from the base year of 1990. "This should enable the goal of a 50 per cent reduction by 1995 to be achieved," he says.

The air index improved last year year by 9.5 per cent, bringing the total reduction since 1990 to 23 per cent. "We are a little behind schedule, but I think we can maintain the target because we will make a big push over the next two years," says Mr Bruel.

In the area of waste, however, hitting the target will be a harder proposition. In 1993, the index remained static, showing just an 18 per cent decline from 1990.

Part of the explanation, according to Mr Bruel, lies in a shift in emphasis, since 1990, towards increased prevention and safety, rather than remedies. "We have put more money into the prevention of accidents," he says. "Why? because when you have an accident you have a pollution that is short in timescale but very significant in its immediate effects."

The stability of the waste index, however, also reflects the conflicts between some of the group's environmental objectives and the priorities attached to the various targets. "We attach the greatest importance to reducing emissions in water," says Mr Bruel. "But when you solve the problem with water, generally you generate some waste."

The stubbornness of solid waste pollution was magnified by the system used by Rhône-Poulenc to calculate the various pollution indices. According to this system, the various pollutants are assigned a coefficient which is determined by their undesirability.

In air emissions, for example, nitrogen oxide is given a relatively high coefficient of 5. In water, salt has a coefficient of a mere 0.001. In 1993, the neutralisation of toxic waste at the company's Le Havre plant led to landfill storage of inert residue from calcium sulfate. Because this has a high coefficient of 10, the impact on the solid waste index was correspondingly increased.

Despite the hiccough in the solid waste department, however, Mr Bruel is confident that the objective of a 65 per cent improvement by 2000 is attainable. "The target of a 50 per cent reduction by 1995 will be delayed, but a research programme for clean technologies is underway to correct this trend," the company says.

Clean technologies for the group's final products are also of growing importance in the battle against pollution. According to Mr Bruel, the group is developing an expanding number of products which reduce harmful waste and emissions at every stage of their lifecycle. The Regent insecticide, for example, which has been launched by the company, degrades without creating toxins. The Nabion detergent, produced with sodium carbonate and sodium silicate, is completely soluble in water and requires no treatment.

Internal efforts are, however, not the only considerations. The wider economic situation also has a bearing on the levels of pollution produced by Rhône-Poulenc's plants. According to the company's environmental report for last year, the largest single factor behind the improvement in the water index resulted from reduced business activity. The next most important factor was technical progress, which accounted for 4.5 per cent of the improvement.

John Ridding

Switzerland's Big Three sense growing sympathy from a public worried about the economy, reports **Ian Rodger**

# Clean air is important, but so are jobs

Officially, this is Responsible Care year in Switzerland.

The chemical and pharmaceutical industry is making a special effort to inform the public about the strategies and programmes it has adopted to ensure that the impact of its operations on the environment is minimised.

But in reality, when the Swiss people think of their huge chemical and pharmaceutical companies these days, they have much more pressing concerns than environmental ones.

Mostly, they want to know how Ciba, Roche and Sandoz are coping with the pressures brought on by health care reform in many countries. And how many of the companies' operations are likely to be moved away from Switzerland to other countries in the near future? How many jobs are likely to be lost?

This represents a substantial change from the past few years when environmental concerns were foremost in people's minds, especially in Basle where all three companies are based.

Relations between the companies and the people were badly damaged after Sandoz suffered a major environmental accident in 1986.

The word Schweizerhalle still reverberates among chemical industry leaders and environmentalists everywhere. It is the name of a small town a few miles up the Rhine from Basle where Sandoz, one of three giant chemical and pharmaceutical groups based in the city, has a large chemical warehouse.

In the early morning of November 1, 1986, a fire broke out in the warehouse, tripping sirens all over Basle and sending clouds of acrid smoke over the city.

That was alarming enough for the residents, but it soon became apparent that an environmental disaster was occurring. As firemen pumped water on to the fire in the warehouse, it mixed with the chemicals.

**Memory of the 1986 disaster at the Sandoz warehouse at Schweizerhalle near Basle still reverberates among chemical industry leaders and among environmentalists everywhere**

Something like 30 tonnes of dangerous agricultural chemicals, including 200kg of mercury, washed into the Rhine.

A great deal of marine life, especially eels, was killed. Although no human life was lost, the fire could have led to widespread deaths through a release of phosgene.

Investigations did not reveal any negligence on the part of Sandoz. Rather, the conclusion was that holding tanks should be installed around chemical warehouses to contain toxic liquids created by fire-fighting.

No one had thought of the need for such tanks before, but they have since become standard installations throughout the world.

Nevertheless, following the accident, relations between Basle residents and all three big companies deteriorated, and any projects they put forward for planning permission were subject to severe criticism and long delays.

The companies quickly realised they were in trouble and set about reassessing their public affairs policies and programmes. They have put ever increasing efforts into educating the local public about their activities and listening to comments and suggestions from neighbours.

Initially nervous about publishing data about their operations, they now release a blizzard of information. Ciba is probably the most aggressive. Last September, it published a brochure entitled Risks of the Basle Works, in which it listed the volumes of various chemicals it produced and the many nasty raw materials it consumed.

The companies have become much quicker and more professional in responding to reports of accidents. For example, last December several containers slipped off a freighter in the North Sea during a storm, taking with them thousands of packets of Ciba's Apron Plus DS pesticide events.

Ciba was immediately active in helping to recover the packets and warning Dutch and German authorities that some might wash up on their coasts. When a month later, some packets started appearing on the coast and the accident became public knowledge, Ciba was ready to reassure people that the chemical degraded quickly, so there was no danger to humans and very little impact on the environment.

Similarly, Roche moved quickly to refute fresh charges by a European parliamentarian that toxic residues from its accident in Seveso, Italy, in 1976 had been deposited in a dump in Germany. Last year, all three companies for the first time published separate corporate environmental reports, explaining their programmes and measuring their progress in considerable detail.

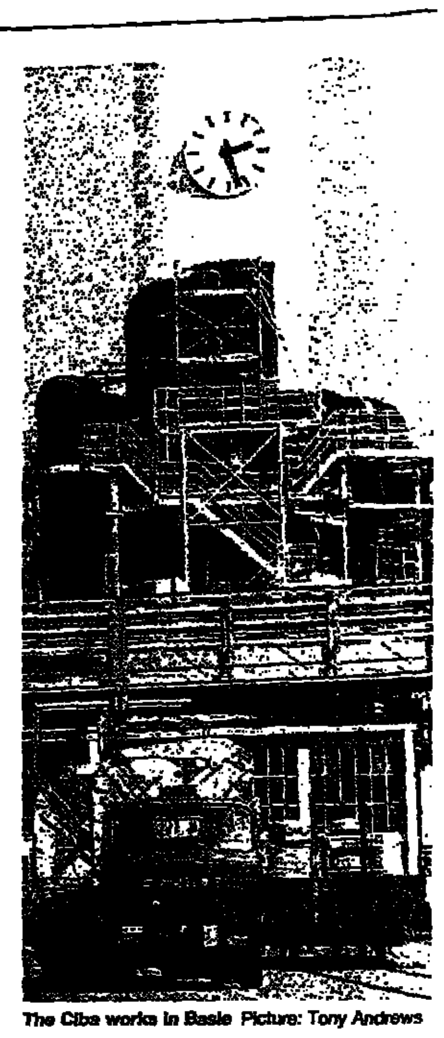
The companies have also joined various international programmes, such as the Business Charter for Sustainable Development launched by the International Chamber of Commerce and the World Industry Council for the Environment, established by the environmental summit at Rio de Janeiro, as well as the Responsible Care Programme.

In the context of the Responsible Care year in Switzerland, the big companies are helping smaller ones to set up environmental protection programmes and showing them how to carry out audits.Sandoz is also running a two day course for secondary school teachers on the Responsible Care concept.

These and other efforts, along with the passage of time, appear finally to have succeeded in healing the wounds of Schweizerhalle. This spring, for the first time since the accident, the chairmen of Ciba and Sandoz felt they could address shareholders at their annual general meetings without even mentioning environmental issues. "We face other issues now. Media inquiries on environmental issues are back to the level of the early 1980s," an official at one of the companies says.

That does not mean that the companies will give environmental issues less priority. Their spending for environmental protection continues to rise, and they are all working on new processes that eliminate potential environmental hazards at source.

Perhaps the final expiation of Schweizerhalle will come in the first half of next year when Ciba will open a SFr120m special waste burning facility in Basle. The project, initiated in the late 1980s, only got planning permission in 1991 from a then hostile community. Now it is hailed as a model of its kind.



The Ciba works in Basle Picture: Tony Andrews

**Ian Hamilton Fazey** studies Cheshire fire brigade's emergency drill

# High-risk neighbourhood

Cheshire's Fire and Emergency Service has to live with more risk than most others. The county has one of Britain's most intense concentrations of chemical and petrochemical industries in its area, in particular a necklace of large sites along the south bank of Manchester Ship Canal from Runcorn to Ellesmere Port.

There have been three big incidents in the last five years and several lesser ones. All have successfully tested the effectiveness of emergency plans and, in some cases, the courage of fire crews.

In 1989, a pipeline ruptured, spilling thick Venezuelan crude oil into the Mersey between Birkenhead and Shell's Stanlow refinery at Ellesmere Port.

The same year, a chlorine leak from ICI's plant at Runcorn caused an emergency as the gas formed a cloud. This year, a big fire at Associated Octel – which makes additives for petrol – alarmed Ellesmere Port residents and prompted calls for a public inquiry which are still being made.

Generally, no one faults the response of the emergency services to any incident. Modern communications have made for ever-faster response, while companies take a "better safe than sorry" approach towards raising an alarm.

Mr Dennis Davis, Cheshire's chief officer, says plans to anticipate and deal with emergencies are comprehensive, although not too detailed. "You can't predict everything that might happen," he says. "It is important to build in flexibility so you can alter your response to any situation you find, or which develops."

This means ensuring thorough knowledge of what is being done where, or stored in any factory, so firefighters will know what they might expect. Liaison with chemical plant management and staff is therefore on-going, with all companies taking their own responsibilities seriously.

Where a new climate is developing, however, is in public relations. The chemical industry and the emergency services are finding new, more questioning, public attitudes emerging, with less trust, more suspicion and a greater demand for information.

Industry and emergency services say they not only welcome this, but they want to take a lead. This is partly defensive. Public consciousness has been raised by the increasing politicisation of environmental issues: people generally want to know more, while pressure groups and green activists are likely to control the agenda if unchallenged by those they criticise.

"It's a matter of trying to encourage people to be realistic," says Mr Edward Brady, head of public affairs for ICI's cluster of plant and offices at Runcorn. "Perspective is important. Most incidents are brought under control quickly by a plant's own emergency staff. The problem comes when people start asking 'What if..?' and extrapolating towards the unrealistic."

Sensational media reporting encourages this – as does entirely reasonable reporting.

In the Octel fire, for example, the blaze near one reaction vessel was brought under control after one hour and 40 minutes. The vessel was encased in a safety coating with a guaranteed two-hour fire resistance.

While chemical engineers saw this as evidence of the protective coating doing its job, media reporting understandably took a "20 minutes from disaster" line. The question to Mr Davis was: "What if the two hours were up? Would you have withdrawn your men and left the tank to explode?"

In fact, two hours' fire resistance was the minimum rating for the coating's integrity. Not only could it reasonably have been expected to last longer, it did not even have to push the limit of the least it was supposed to do.

"The mistake was to give the two-hour figure," says one PR professional unconnected with the incident. "It led to inevitable questions which then raised an unrealistic level of public alarm."

Mr Davis says the best approach is to ensure the widest local public knowledge of what is going on in any chemical plant – and what is the best thing to do if anything goes wrong.

"The first policy is shelter, not evacuation," he says. "But many people assume there will be mass evacuations and want to know why we are not going ahead getting them out. The safest thing to do, however, is to stay indoors, shut the windows and doors, and listen to the local radio."

He points out that a policy of evacuation could make things worse, adding to congestion and requiring management time that could be more crucially deployed against the emergency. "We want people to be safe. Sheltering in their homes will usually be safer than leaving them. If a need develops to evacuate people, we will then get them out," Mr Davis says.

Under a code called CIMAH – the control of industrial major accidents and hazards – all owners of potentially dangerous plant are required to write every few years to all people living within 1,500 metres of a plant telling them what is stored at the plant and what they should do in an emergency – which is to shelter indoors in the way Mr Davis advises unless told to do otherwise.

Emergencies are signalled by siren. "If you can't hear the siren, you're almost certainly far enough away not to be in any danger," Mr Brady says. The question is if, and when, to sound the siren, especially at night, and especially since most potential problems are nipped in the bud.

No one wants to cry wolf. In one instance there was confusion when a small leak at ICI was quickly contained, but a warning to stay indoors had already been sent out for radio broadcast. Not all the radio stations broadcast the warning – but one that did broadcast it failed to send the all clear.

Cheshire's chemicals companies are talking about working together better, jointly publishing information and making more concerted attempts to better inform the public at large. Mr Davis also wants a more informed media corps.

Knowledge and understanding are seen as the principal tools for achieving this. This also includes understanding that the right thing to do in some emergencies is nothing – as with spilt oil that can often be left to break down naturally. Mr Davis says uninformed exhortations to "do something" can add to the problem.

Both he and Mr Brady also think that calls for relocation of plant or rehousing of people near them have to be debated on reasonable assumptions of risk.

Fair debate, however, depends on disseminating enough information to promote wider knowledge and understanding. Responsibility for this lies with the industry.

Germany, with the world's toughest controls, may be having second thoughts, writes **Christopher Parkes**

# Green tide reaches high water mark

Last December, when the German chemicals industry was still wallowing close to the bottom of the worst profits trough since the war, and still wincing from a media onslaught which followed a rapid-fire series of accidents at Hoechst, it was offered a few crumbs of comfort from an unlikely source.

The opposition Social Democrat Party (SPD), in concert with the IG Chemie union, published a position paper on the industry's future. The main recommendations seemed unremarkable: the simplification of environmental legislation and acceleration of planning procedures to facilitate the introduction of "environmentally-acceptable products".

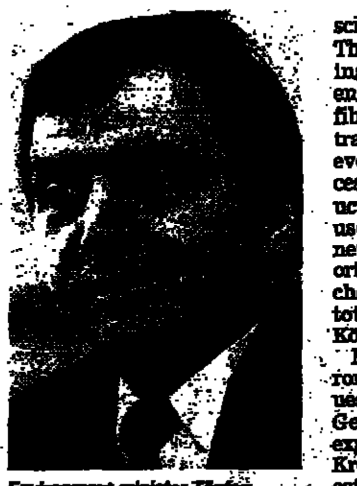
But the paper, personally endorsed by Mr Rudolf Scharping, SPD leader, marked an important development. The senior opposition party, whose attitude towards the chemicals industry had long been fudged by a lingering attachment to the more rigorous environmental policies of the Greens, had shown that it had heard and deemed justified the industry's most serious complaints about the direction of German environmental policy.

The costs of environmental protection are a sore point among chemicals producers in most industrialised countries. But it is the range and complexity of legislation which give the greatest cause for grief within the German industry. Federal laws, arguably the strictest in the world, are overlaid by separate legislation engendered in each of the country's 16 Länder.

The result is a scarcely-penetrable entanglement which generates work for enthusiastic and meticulous bureaucrats and frustration for companies which see their attempts to innovate and regain competitiveness repeatedly bogged down.

A company seeking to build a new chemicals production plant in the federal republic must observe more than 2,000 laws and regulations. According to industry calculations, the average time taken in Germany to win official approval – be it for planning permission, a new product, change-of-use in existing plant – is 13 months compared with six months elsewhere in Europe.

Mr Horst König, head of research planning at BASF, says the time and costs involved are becoming increasingly critical as competitors

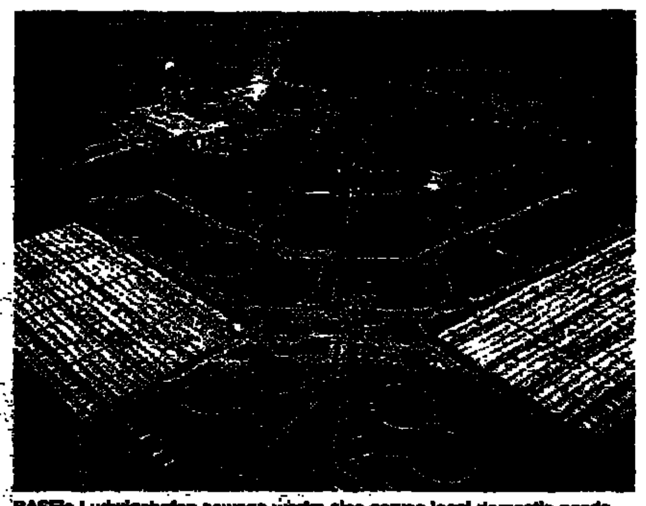


Environment minister Töpfer: setting an international example

race to be the first – or the cheapest – in the market with new products or techniques. R&D projects, even though carried out with no guarantee of success and subsequent profits, were particularly vulnerable, he wrote in a recent article.

He provided an example of a new dye intended for the textiles industry where cost-consciousness is especially keen. The dye was especially promising because it was almost entirely absorbed by cotton fibres and left barely any traces in the waste water. However, the manufacturing process generated three by-products. Even though they were used in other processes and never left the plant in their original form, each had to be checked and approved at a total cost of DM200,000, Dr König wrote.

Meanwhile, the net of environmental legislation continues to expand and impinge on Germany's fourth-largest exporting sector. The planned Kreislaufwirtschaftsgesetzt – a catch-all law designed to complete the circle of development, production, use and re-use or recycling for new products – allows for no exceptions. The aim of the legislation is to oblige industry to develop new products and the techniques for recycling them in parallel. According to Mr König, this will apply even to one-off, low-volume manufacture of experimental materials or products even before a market has been



BASF's Ludwigshafen sewage works also serves local domestic needs

found for them.

If research and development in Germany continued to be obstructed by indiscriminate restrictions, valuable jobs in research and application technology would be lost, he wrote. Production would inevitably follow and, in the end, so would scientific knowledge. "The widespread exodus of gene technology should act as a warning," he added.

The Bonn coalition has already acknowledged that deregulation has an important part to play in ensuring future growth in the German economy, and last year put forward a wide-ranging discussion paper on the subject which was clearly intended to prepare the ground for change. The SPD's position paper – part response to the now-fading cyclical crisis in the chemicals industry, and part campaign document – showed a similar intent. Whoever wins the forthcoming federal election, there are promising signs of a consensus that more flexibility and less red tape are in order.

On the other hand, there are no indications from any side that German environmental legislation will be made less rigorous. The aim is more to reconcile the demands of the law with the desire to preserve jobs and encourage the evolution of a more specialised chemicals sector as the old, low added-value production drifts increasingly and inevitably abroad.

Mr Klaus Töpfer, the Bonn environment minister, recently proclaimed that one of his aims during Germany's impending European Union presidency, was to establish the EU's "continuously developing" environmental policy as an example to the rest of the world. In consort with his French counterpart, Mr Michel Barnier, he said he would press for higher security and protection standards all round, and more stringent application of existing regulations.

In the future, he said, he expected the four EU membership candidates, Sweden, Norway, Finland and Austria, to strengthen the ranks of the advocates of environmental protection. Europe must come to appreciate that a vigorous environmental policy offered economic opportunities.

It was doubtless coincidental, but on the same day Mr Heinrich von Lersner, president of the federal environmental agency, chose to highlight some of the economic advantages. He argued strongly against the advocates of a "pause" in environmental legislation. His 20 years' experience had taught him that neglect of the environment damaged the economy while investment in its protection almost always paid dividends.

The world market for protection technology was now worth $285m a year. The US had 16 per cent, Japan 13 per cent, but Germany was still market leader with a 21 per cent share. There was a danger, Mr Lersner noted, that Germany would lose its lead if potential purchasers were put off by warnings that environmental protection was bad for an economy's health.

Communism has left a costly legacy, writes **Anthony Robinson**

# Outdated and inefficient

It's an ill wind which blows nobody any good, and nowhere is the old truism more apparent than in the former communist states of eastern Europe and beyond.

In the four years since the collapse of communism, precipitous declines in output from the old state-controlled heavy industrial and chemical plants have been accompanied by a substantial decline in the level of both air and water pollution. Unfortunately, however, the volume of accumulated chemical, nuclear, metallic and other wastes in the ground, in often poorly constructed and maintained dumps and storage dams and in the seas fed by polluted rivers, remains horrific and lethal, particularly in the former Soviet Union.

In volume terms by far the biggest sources of pollution remain the region's coal-fired power stations, steel mills and refineries of all types.

Over a third of Europe's entire emissions of sulphur dioxide are pour out of a complex of lignite or poor quality coal-burning power stations and chemical plants in the so-called "black triangle" where Poland, the Czech republic and former east Germany meet.

Poland alone expects to spend $1bn reducing emissions at one of the biggest polluters,

**Many eastern plants were built by the west, but are now very outmoded**

the 2,000MW Turow power station complex, while the German environment minister has promised that the former east German plants will be brought up to EU emission standards by 1996. The German government has also agreed to finance similar environmental improvements at the Prunerow power station just across the border in the Czech republic.

The coal mines are also a potent source of water pollution, especially in Poland where saline water pumped out of the deep mines of Silesia flows down the Vistula and into the Baltic, one of the most polluted seas in the world. The Baltic is closely followed by the Black Sea which is also virtually landlocked and receives the effluent from the Danube and the big rivers flowing through southern Russia and Ukraine.

The chemical industry by comparison is a limited polluter, but this mainly reflects the low level of its development in the former communist bloc and the fact that many chemical, synthetic fertiliser, petrochemical and related plants were put up there on a turnkey basis by western contractors.

Even so many were built before the awakening of environmental consciousness in the West, and even plants built in the 1970s frequently deliberately skimped on smoke abatement, water filtration and other environmental protection equipment. Even when environmental protection equipment was installed, itwas rarely switched on or it became inoperative because of breakdowns and shortages of spare parts.

But environmental protection became a powerful stick with which to beat communist governments in the 1980s and many of the most polluting plants were closed in the first flush of enthusiasm after the collapse of the Berlin Wall and installation of the first post-communist regimes. Given the monopoly nature of the communist production system, however, several of these plants had to be re-opened to ensure minimal supplies of drugs and essential chemicals for other industries.

Lack of investment and poor maintenance left the former East German chemical industry, much of it coal-based, especially vulnerable once German re-unification revealed the combination of

Trying to catch up: materials research at a Minsk electronics plant

low productivity and environmental nastiness. The introduction of D-Mark pricing was the last straw and whole swathes of the industry have simply been wiped out, leaving a huge bill for rehabilitating the polluted land on and around the sprawling acres where the plants once stood.

Poland and the Czech Republic also have substantial chemical industries facing similar problems but are spared the additional burden of over-valued currencies. In Romania, where the worst polluters (such as the unspeakable carbon black plant at Copca Mica in Transylvania) have been simply closed down, the overblown petrochemical and refining industry is working at a fraction of its capacity.

Throughout the region, fertiliser plants, refineries, petrochemical complexes and pharmaceutical plants have either been closed or are working far below capacity. With over-capacity in the west, little money is going into modernisation or on new greenfield sites, although the latter are generally regarded as a much better investment.

The decline in Russian oil production and, above all, the end of the era of cheap Soviet energy and input prices is the main factor which has exposed the uncompetitive nature of most chemical production in the region and led to the lower output and the consequent fall in pollution. Russian statistics show an average 20 per cent decline across a broad swathe of chemical output in 1992 with no sign of recovery to date.

Reliable figures are hard to come by in this area but official Polish statistics show that output of the Polish chemical industry fell 25 per cent in 1990 and a further 13 per cent in 1991 before rising by 7 and 8 per cent in the following two years. But the emission of gases, which fell from 5.1m tonnes in 1989 to 4.1m in 1990 continued to fall even when production started to rise. The statistics show a similar trend in the emission of poisonous dust emissions.

This is only partly due to investment in anti-pollution devices which has remained minimal given the poor economic state of most chemical enterprises. The fall in emissions mainly reflects greater awareness of ecological issues and greater efficiency in the use of fuel and inputs prompted by more rational pricing. Gone are the days of big investment in huge, inefficient and polluting plants to produce basic chemicals from cheap Soviet oil. In future, the emphasis will be on much smaller plants, many of them foreign-owned or using the latest western technology to produce world-quality drugs, detergents, paints and downstream consumer products at greenfield sites governed by EU pollution standards. The forerunners of this new phase are the detergent plants set up in Poland, Hungary, the Czech Republic and elsewhere by Henkel, Unilever, Benckiser and Procter and Gamble.

The risk of court action is increasing, writes **Ian Hamilton Fazey**

# When directors are liable

Alan Bottomley says most directors and senior managers of UK companies are just not frightened enough.

"The legal aspects of caring for the environment need to be taken much more seriously," he warns. "The personal responsibility of directors is going to become an increasingly important area and people running companies need to become much more aware of what they may be up against."

Mr Bottomley is senior partner of Hammond Suddards, one of the "big five" firms of corporate lawyers in Leeds. Many large law firms have set up units of specialists in environmental law during the last few years but what makes Hammond Suddards especially qualified to comment is that ICI outsourced its environmental litigation work to the firm in 1992.

Lawyers hoping for more clients are no different from any other salespeople, so their claims should always be treated with caution, if not scepticism, but there appears to be evidence to support Mr Bottomley's case.

The case is this: fines on companies for pollution offences are having a slow impact; but directors and senior managers carry personal legal responsibility for the actions of a company, its employees and its agents.

Therefore, enforcement bodies are increasingly likely to "go" for individuals and try to obtain large fines against them – or even prison sentences. Mr Michael Shepherd, one of Hammond Suddards' litigation team and a specialist on legal and court procedure, says that in some fields such as waste disposal, gaol sentences have already been handed down.

Many companies have written environmental policies which are meant to show that directors and senior managers take their responsibilities seriously and expect the company's employees and agents to do the same.

Based on precedent in other fields of law, many believe this will protect directors and senior managers if something goes wrong and a pollution offence is committed "down the line" without their knowledge.

Whether a criminal act by an employee or agent is the action of a company depends on his or her state of mind, intention, knowledge or belief, as well as the facts and circumstances.

If the law requires a guilty mind as a condition of an offence, the company will be guilty if the directors and senior managers intended to commit the offence, but not if they had no such intent and the offence was committed by a junior employee who is not an officer of the company.

Tesco v. Nattras in 1972 is the latest precedent of three relied upon in support of this. Here, a supermarket ran out of cut-price chickens being advertised nationally on special offer. The supermarket manager substituted chickens from stock labelled at a higher price and Tesco was prosecuted by a local trading standards officer.

**'Enforcement bodies are increasingly keen to see directors heavily fined or even jailed'**

The case went through the appeal system, where the final decision was that Tesco was not guilty because the senior management had no intent to commit an offence and the local supermarket manager was too lowly in the organisation to make the company liable.

Mr Stuart Bell, a Hammond Suddard lawyer specialising in environmental policy, says this gives many directors and senior managers a false sense of security for two reasons.

The first is that many pollution offences are absolute, and therefore do not require a guilty mind for companies and individuals to be charged.

Mr Bell says most environmental law specialists believe the trend will be for increasingly more pollution offences to become absolute ones. There will be no defence against them, only a plea of mitigation. The company without a well-defined environmental policy will be in trouble.

The second reason he advances is of a discernible trend by legislators – in effect, the government – to make personal responsibility much more important in corporate governance. The Food Safety Act of 1990 gives a clue as to developments.

It says if an offence is proved to have been committed with the consent, connivance or through neglect by a director, manager, secretary, or any other similar officer of a corporate body – or anyone purporting to act in such capacity – the person is guilty and liable to punishment.

Similarly worded sections are now included in the Acts of Parliament covering health and safety at work, consumer credit, company law, financial services, trade descriptions, water resources, planning, fire precautions, crowd safety, insolvency and environmental protection.

This means having a written environmental policy may not be enough. It has to be applied and supervised right up to boardroom level. Procedures also have to work at all times. For example, having an environmental officer acting as internal policeman may not be enough if there is no procedure to cover for his or her holidays.

It means a site foreman cannot turn a blind eye to where an outside contractor dumps a load of waste – nor the directors of the company involved claim that it was nothing to do with them because they did not know. All parties must have taken reasonable precautions to ensure safe disposal eventually took place.

Concerted attempts to stop illegal waste disposal – particularly dumping of toxic waste – are already under way.

"Cowboy" operators who have charged for long haulage to legal dumps, or for digging holes to bury waste, but have then dumped illegally and locally, or at surface level, have been successfully prosecuted recently and gaoled.

Some environmental lawyers believe the directors of companies that hire such operators may be next, "to encourage the others".

An attempt is also being made by the authorities to establish a precedent that will supersede Tesco v. Nattras as far as environmental law is concerned. The case involves pollution of a waterway via an underground culvert on a new housing estate, and whether the directors and senior managers of the company involved can be held responsible for it.

National Rivers Authority v. Alfred McAlpine Homes (Southern) is now in the appeal system. If the NRA wins, environmental law at least will greatly increase the onus on corporate officers for what happens "down the line" – however remote from head office.

Is all this the scare tactics of lawyers trying to drum up more business? Mr Bell warns: "Large numbers of companies have no policy on waste minimisation, waste reduction and waste disposal. Big companies are OK but many medium-sized and smaller ones have no idea at all.

"When you look at the figures, the number of prosecutions is very small compared with the number of breaches. But the number of prosecutions has doubled year on year since the National Rivers Authority came into being in 1989."

Penalties are also likely to be stiffer. Although they are limited to £20,000 and six-month sentences in magistrates' courts, fines are unlimited in the crown court, where gaol terms of up to two years can be imposed. In addition, companies can be made to pay for putting the pollution right – and this may cost much more than any fine. Incidentally, fines and remediation costs are not chargeable against revenue for tax purposes – they come straight out of profits.

Mr Shepherd also says environmental pressure groups are likely to bring their own prosecutions, as Greenpeace inflicted on ICI last year. Greenpeace did not win, but it demonstrated a new avenue for making companies more environmentally responsible.

The question for directors and senior managers is whether they can afford not to take the lawyers' warnings seriously.

Doomsday scenario watching has become a US preoccupation, writes **Richard Waters**

# Ammunition for scaremongers

*Inhabitants of the Kanawha valley in West Virginia were treated to a doomsday scenario this month.*

This valley, running east from Charleston into the foothills of the Appalachians, houses chemicals plants run by no fewer than 12 different companies. In an exercise that will eventually be repeated throughout the US, the managers of those plants talked publicly about what could happen if their safety procedures went badly wrong.

Until now, chemical companies have been understandably reluctant to discuss potential disasters with their local communities. "It is the moral equivalent of Bhopal: they know what could happen, and they're not telling us," says Fred Millar, a long-time activist and former director of the Friends of the Earth toxics project.

But the publication of "worst-case scenarios" – projections of the damage that would be caused by the worst possible accidents at chemical plants – will be forced in the coming years. The US Environmental Protection Agency, under the provisions of the Clean Air Act of 1990, is currently drafting rules on what should be disclosed, and how. The Kanawha exercise marked an early experiment by the chemicals industry: the companies involved wanted to act first, using their own definitions of what amounts to a "worst-case scenario".

When widely published around the country, the information will provide plenty of ammunition for scare-mongers – including those legislators in Washington DC who want tougher environmental controls on the chemicals industry. For instance, chlorine used for water treatment in the nation's capital could, based on a worst-case assessment, create a poisonous cloud enveloping a large part of the city, including the President's home.

"Even the White House is not immune. The data is going to scare a lot of people," says Mr Joe Mayhew, vice president for the environment and policy analysis at the Chemical Manufacturers' Association.

The attention likely to be given to this information, when published, indicates how much further the chemicals industry still has to go to win over public confidence in the US. A survey conducted for the CMA two years ago revealed how low the public's esteem for the industry was, and – despite an extensive public relations effort – things have barely changed.

The industry's approval rating "probably hasn't improved a lot," says Darwin Wike, head of corporate environmental stewardship at Du Pont. Mr Mayhew at the CMA agrees, though he puts it less pessimisticly: "It's not getting any worse."

The Clean Air Act's requirement for companies to reveal the potential damage their chemicals could cause signals the direction in which regulation of the industry is moving. Until now, it has focused on emissions of waste by chemicals companies, with the EPA producing lists of polluters and their discharges. In future, attention is likely to be directed more towards the actual (and potential) harm to public health and the environment, and towards the use (rather than just the disposal) of chemicals.

The industry plans to stress the low probability of major accidents occurring.

It's the real thing: spectators at a 1992 refinery fire in Los Angeles Picture: AP

However, the pressure of public opinion will almost certainly have an effect, for instance by encouraging companies to review their arrangements for storing their most hazardous materials.

Campaigners want companies to go further. They should, says Millar, publish the results of safety audits and details of how much insurance they have (if companies carry insurance to cover most of the costs of a disaster, he argues, they have less incentive to prevent it happening).

There is also growing pressure for more information about how chemicals are being used. At present, the state of New Jersey is alone in collecting detailed information in this area. Federal regulation is skimpy: under the Toxicity Control Act, big users of chemicals are subject to a report once every two years on the volumes of chemicals they use. In future, that could be extended, forcing more frequent reporting and more detailed information – including, for instance, the extent to which the chemicals are recycled.

This data, ironically, could end up being of use mainly to chemical companies. They are already the biggest users of the EPA's data on toxic releases, says Mr Mayhew – such information provides important clues about what competitors are doing. Detailed information about what materials the chemicals companies are using would go further still.

While regulation looks set increasingly to add to the costs and reduce the flexibility of the chemicals industry, it has at least one thing to cheer about on the environmental front.

The proposed reform of the Superfund legislation, governing the clean-up of hazardous waste, would reduce the legal wrangling over who should shoulder the costs on particular sites. The result would be lower legal bills – one of the biggest costs in the clean-up process.

Chemicals companies, meanwhile, are also finding more efficient ways to spend the money they set aside for environmental purposes. The danger, says Mr Wike at Du Pont, is that the easiest and most effective programmes are the first to be adopted, and that smaller and smaller gains are made with each additional step: "You get 80 per cent of the reduction with the first 30 per cent of spending."

One way of improving the impact of environmental spending has been to shift attention from the treatment of waste, for instance with incinerators or water treatment plants, to a search for ways to reduce waste in the first place.

Companies have also become more efficient at setting targets for their emissions. Du Pont, for instance, used to impose waste reductions targets on its operating units: now, it is switching more of the initiative to plant managers, asking them to come up with their own proposals first. Managers closer to the operations should be better positioned to propose the environmental programmes which have the biggest impact for the least cost at their plants.

The industry is also hoping that the EPA will countenance more voluntary waste reduction programmes, rather than enforced ones. Its so-called "33/50" programme, which set stepped targets for reduction of certain emissions by first a third and then a half, is a model which many in the industry would like to see repeated.

Despite these initiatives, the rulebooks keep getting thicker. The EPA is about to add more than 300 additional chemicals to the list of those whose output has to be measured. Under the Clean Air Act, tighter permit regulations will shortly make it difficult for virtually any changes to be made to a chemicals plant without going through the entire approval process again, the industry complains.

"We're slowly falling behind the rest of the world in terms of developing new processes," says Mr Wike.

■ **Case study:** the cleansing of Teesside

# Salmon, not sewage

Not so many years ago, talk of the lower reaches of the River Tees welcoming migratory salmon would have seemed laughable.

Teesside's rapid industrial and urban expansion throughout the 19th century and much of the 20th had foully polluted the river as it neared the North Sea.

Industrial and sewage discharges combined to create a quality of water which bred little except protest demonstrations by environmental activists.

Some of the environmental campaigners' wrath was directed at the National Rivers Authority, the UK's river watchdog, for not imposing immediate draconian cuts in ICI's effluent discharges from its Teesside plants, the group's largest concentration of manufacturing assets in the world.

The NRA countered by arguing that it must give industry achievable targets, imposing phased reductions on the levels of permitted discharges in order to work progressively towards its goal of the passage of migratory fish along the Tees.

In line with this philosophy, the Tees has been the focus of one of the UK's biggest estuary clean-ups. ICI alone has spent £100m since 1990 on environmental improvements on Teesside, mostly river related.

While its corporate aim, announced in 1990, for its sites worldwide is to cut waste by 50 per cent by 1995, its Teesside operations are working to a higher target of 68 per cent. Total waste produced from its manufacturing activities on Teesside has fallen so far by 57 per cent, from 521,000 tonnes in 1991 to 226,000 tonnes in 1993.

The major contributor to this reduction has been the end of the disposal of acidic ammonium sulphate at sea by ICI's Acrylics business, following the opening of the £66m sulphuric acid recovery plant at Billingham, part of the £110m Monomer 8 complex.

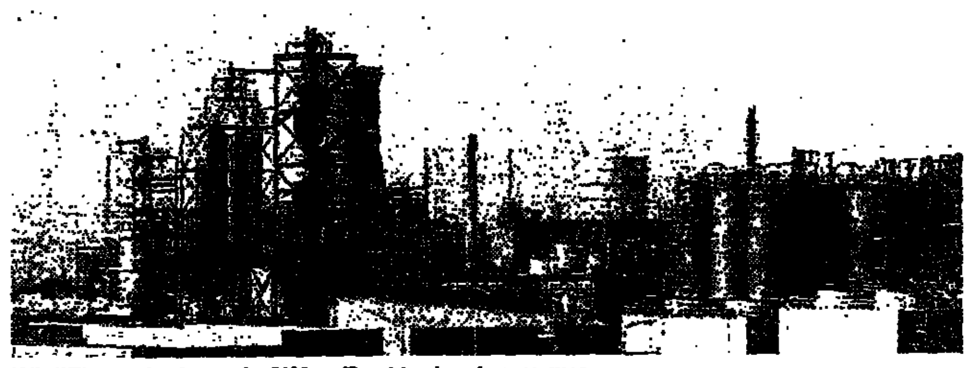
Now, ICI and Northumbrian Water are working together on a £100m effluent treatment works project which should further the NRA's aim of restoring a thriving salmon fishery to the Tees.

Last month, Northumbrian Water submitted to Cleveland County Council a planning application for the proposed treatment works, to be sited on a disused ICI waste disposal site on the south bank of the Tees. The purpose of the plant is to deal with sewage from 400,000 Teesside residents and discharges from ICI's Wilton petrochemicals complex.

The eventual £100m cost of the two-phase project will be borne by Northumbrian Water, with ICI paying fees for each tonne of waste treated.

Northumbrian Water has also held discussions with seven chemical companies at Seal Sands, on the north bank of the river, about the possibility of their using the plant too.

The £50m first stage of the project includes construction of a £35m underground transfer sewer along the Tees' south bank, so sewage is taken from existing treatment plants for discharge downstream nearer the river mouth. In its first phase, the treatment works will deal with ICI's pure terephthalic acid (pta) discharges from Wilton.



ICI's Wilton works: focus of a £100m effluent treatment programme

The second phase will involve treatment of more ICI effluents, and also a higher standard of treatment of the sewage before discharge to the river, to meet the European Urban Waste Water Directive, at present due to come into effect in 2001.

Currently ICI's Wilton site has a biochemical oxygen demand – a measure of river oxygen depletion due to pollution – of 80 tonnes a day, but the NRA has said this must be reduced to 50 tonnes by 1996. ICI expects the treatment of pta discharge at the new plant to bring a net reduction of 19 tonnes. Treatment of more discharges by the plant's second phase should help ICI meet its own target of a Wilton BOD of 25 tonnes a day by the year 2,000.

In the early 1970s, Wilton's BOD was 400 tonnes. "We've got it down to a fifth of what it was 20 years ago," says ICI. "Dealing with the remaining fifth is more difficult and more expensive."

ICI and Northumbrian Water, both involved in improvement work on the Tees since the 1970s, believe it makes sense to pool their expertise and resources in this way, in anticipation of future tighter standards.

They hope the effluent treatment works, which requires consent from the boards of Northumbrian Water and ICI Chemicals and Polymers, will be approved by Cleveland county council before the end of 1994, so its first phase can be commissioned in mid-1996.

Northumbrian Water's general manager of projects Mr Doug Shearer says the plant does not involve incineration or the import of waste, both of which are highly contentious issues on Teesside.

The council, mindful of the delicacy of environmental issues in its heavily industrialised area, has pledged full consultation. "Obviously we haven't been happy about discharges into the river and sea," says Mr David Walsh, chairman of the council's environment, development and transportation committee. "We want to study the implications of this approach."

**Chris Tighe**

FINANCIAL TIMES SURVEY

# CHEMICALS AND THE ENVIRONMENT

Thursday June 30 1994

After decades of assaults by lobbyists, chemical companies' biggest headache is now the mass of laws curbing their operations, says **Daniel Green**

## The day of the lawyers has arrived

Fear is an important factor in the chemicals industry's management of environmental matters. Industry leaders and their companies can face vast liability suits if there is an accident. Even everyday operations can become bad publicity.

Some of these fears have begun to fade in the mid-1990s. In their place is the spectre of being overwhelmed by national and international legislation.

Chemicals companies already employ thousands of people in the environmental monitoring and control of plant and processes. Yet the pace of introduction of new laws is undiminished. Executives are caught between the need to demonstrate that they are cleaning up their businesses and the desire to limit the administrative burden that this requires.

A decade ago, the agenda was set by the lobby and pressure groups such as Friends of the Earth and Greenpeace. They dogged chemicals manufacturers, pointing an accusing finger at smokestacks, dumped by-products and river discharges.

Although the industry was jolted, its solution was in the end simple: create a department whose job it was to fight back in the propaganda war.

The result was a whole series of initiatives ranging from case studies of substances once dumped but now used productively, to the creation of the "Responsible Care" movement – a voluntary programme covering health, safety and the environment – now embraced by virtually the entire European chemicals industry. "We initially resented the obligation for publicity," says Mr Michael LaGraff, general manager for health, safety and environment at BP Chemicals. "But now we can demonstrate our progress."

The old publicity machine still requires oiling. But individual feel-good stories have become the environmental equivalent of motherhood and apple pie, and everyone has them.

Most large companies can point to impressive track records in cutting emissions and recycling waste, and they publicise them in glossily produced reports.

But today the departments devoted to generating a response to pressure groups have largely gone. The teams of specialists have been dispersed. Managing emissions has become an everyday part of general management.

The pressure groups' legacy is the determination of politicians to legislate and regulate the industry. That means that chemicals companies are increasingly turning for help to lawyers and government affairs experts rather than public relations executives.

At the top of the European list of priorities is a proposed directive from the European Commission largely based on the UK's 1990 Environment Protection Act (EPA).

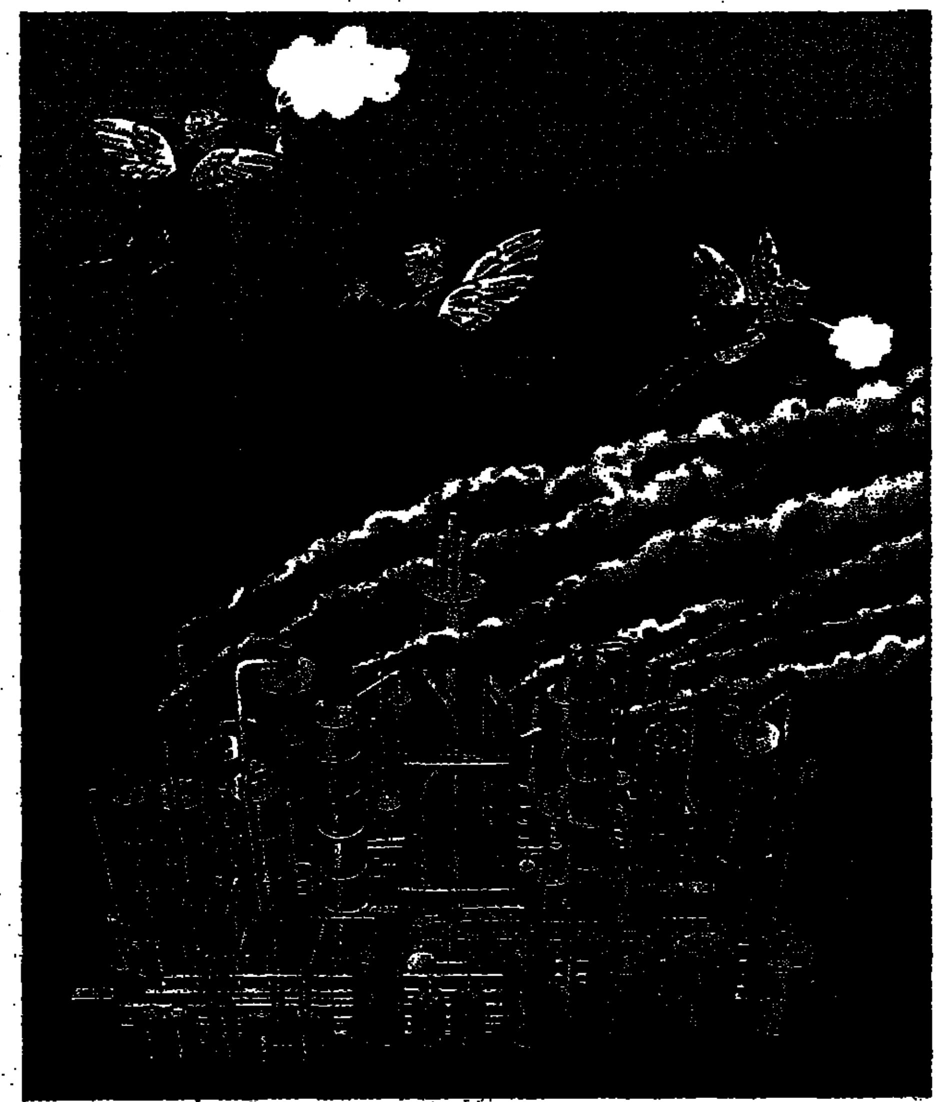
The UK is the model because the EPA introduced the concept of integrated pollution control, the notion that it is not enough to legislate for the reduction of emissions of one kind or another. If airborne emissions are cut but at the same time water discharges increase, the object of pollution control legislation is not achieved. The solution is to integrate the monitoring control of chemicals plants, rather than to look at each substance produced individually.

Under UK law, "you have to formalise your systems with regard to the environment," says Mr Neil Budworth, safety officer at the UK operations of German chemicals company Bayer. "You have to take into account all emissions, where they go, how they are controlled, what the management systems are and what the history of complaints is."

The company compiles a report that includes not only these details but carefully thought out proposals for controlling the emissions. The report is submitted to the UK government for the proposals to be approved, or otherwise. Once authorisation is secured, it must be followed by quarterly monitoring of the plant and the deposition of information for public inspection.

The task is enormously complex, says Mr Lindsay Fortune, head of health, safety and the environment at chemicals company Courtaulds. "You are right at the fringes of science. Sometimes the legislation requires you to do work that there is no science for."

He gives several examples of questions whose answers have yet to be clarified fully. How should emission limits relate to the quality of the environment? How should trigger points change with local population density? If discharges are to be made into rivers, how should limits vary according to the capacity of the river to carry the effluent away? In air emissions, how should limits vary according to the way hill and mountain ranges and climate conspire to concentrate or disperse materials?



The industry's concerns about how such legislation works are not limited to the scientific. The costs involved are of increasing concern: chemicals companies already spend up to seven per cent of sales on health, safety and environmental matters.

"There are more than 300 environmental directives or laws already at the EU level alone. Between one and two per cent of the workforce in chemicals companies is concerned with the regulations now," says Mr Louis Jourdan, director of technical affairs at the Brussels-based European industry organisation, Cefic.

Rising costs are more than a matter of the quantity of laws enacted. In the UK, companies should control emissions using the "best available technology not entailing excessive cost", says Ms Tamar Posner, executive director responsible for health, safety and the environment regulation at the UK Chemical Industries Association. But the proposed European directive does not specify that or say how costs should be considered, she says.

"This is the biggest issue in the European directive", says Courtaulds' Mr Fortune. Conforming to the rules in the UK is expensive enough. Even compiling a report for the UK government "takes of the order of six man-months to prepare. Each site typically needs 10," he says.

Yet this concern over costs sits awkwardly with the chemicals industry's acknowledgement that laws are needed. "These laws are not in principle a bad idea," says the Chemical Industries Association's Ms Posner. "But what's happening is too much. The laws are not wrong, undesirable or unnecessary. But they are coming at such a pace that it makes it difficult to regulate and implement them. In 1993 alone there were about 40 EU instruments being adopted or going through development."

This view is underlined at the European level. Mr Jourdan of Cefic says "We like the [proposed] directive. There is nothing fundamentally wrong with it. But it is too detailed. There are provisions for the classification of substances produced in very small amounts for research and development – they are not going to be spread over fields and rivers."

The alternative, according to Cefic, is a voluntary scheme along the lines of the Responsible Care programme. "Ninety per cent of actions in a chemical plant will remain unregulated anyway," says Mr Jourdan. "We want to replace, pilot or complement regulations with a voluntary agreement."

Nevertheless, the industry and its representative bodies know that they will probably not get their way. The laws are more likely to get tougher and more complicated than simpler. One of their greatest fears is that the European Commission will look favourably on the US systems of a Toxic Release Inventory (TRI), in which every company provides exhaustive details of substances released.

Whatever ends up in the directive, the industry sees it as the start of yet more work. "The next stage will be implementing the whole thing," says Mr Fortune.

The industry is determined to lobby Brussels in its attempt to limit or at least delay the impact of the next wave of regulation, but it is preparing for a sharp increase in its workload anyway.

The lobbying will continue because companies face the need to allocate responsibilities, define practices, identify procedures and find the resources for implementing and maintaining environmental management, says Mr Jourdan. "All of this needs a structure. We are asking for a pause in the production of legislation. Our job used to be easy, it was about emission limits. Now it is about standards and principles."

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☐ *Illustration:* *Robin MacFarlan*

Japan earns high marks from OECD watchdog, says **William Dawkins**

# Once bitten, twice shy

Japan's chemicals industry can take some – but not all – of the credit for the country's better than international average progress in curbing pollution.

A recent study of Japanese environmental performance by the Organisation for Economic Cooperation and Development praises the country for its "remarkable" achievement in reducing air pollution, from industrial plants, cars and power stations.

"These successes have proved that environmental policies and economic development can be mutually supportive," says the study, one of the first fruits of a 1991 *OECD decision* to run environmental checks on all its members. Far from damaging industrial competitiveness, rigorous curbs on air pollution have benefited car and pollution control equipment producers, says the report. Yet the study gives Japan below average marks for its performance on industrial waste, where the chemicals industry plays a larger part than most, and dependence on agricultural chemicals.

Cleaner than it looks: Mt Fuji behind its industrial landscape Picture: Mike Blenk

Over the past 20 years, Japan has shown the highest average growth of any member of the group of seven rich industrialised nations, even counting the blow to its economic record inflicted by the recent recession.

Yet it has also over this period more than halved sulphur dioxide emissions and nearly halved nitrous oxide pollution. That is the best performance of any member of the OECD, says the study. Industrial processes account for between 40 per cent and half of air pollution in Japan.

The OECD attributes this impressive track record to Japan's tough regulations, such as those on car exhausts and factory chimneys, plus the high technological standards of the water and air cleansing equipment industries. This is the reward for the 3.4 per cent of total capital formation that Japanese industry invests in pollution control, described by the OECD as among the highest in the industrialised world.

Private companies account for the lion's share of this spending. Within this, however, the chemicals industry spends far less than its foreign competitors. Japan's chemical companies invested four per cent of annual turnover on the environment in 1991, according to European chemicals industry figures, compared with 10 per cent by their US counterparts and 12 per cent by European chemical producers.

Japanese companies also dump more industrial waste as a percentage of gross domestic product than the OECD average, a mark of its relatively lax industrial waste policy. It remains among the biggest users of agrochemicals in the OECD, a mark of the need to maximise yield from scarce farmland.

That said, Japanese chemicals companies have made spectacular progress since the traumatic environmental disasters of the 1950s and 1960s, which still dog the industry's reputation.

Cases such as the Minamata disaster, where mercury was pumped into the sea off southern Japan poisoning the people of a nearby fishing village, or the Yokkaichi air pollution scandal, in which residents of an industrial town in central Japan were made ill by air pollution from chemical plants, spurred industry and government into action faster and earlier than their western counterparts.

Those disasters led to tough legal controls on water and air pollution and also taught industry that the costs of compensating victims far outweigh the cost of prevention.

Chisso, the chemical company responsible for Minamata, could have avoided the mercury disaster, if it had spent Y100m annually on pollution control, estimates the government's environmental protection agency. Instead, Chisso is still faced with an annual compensation bill of Y11.9bn, 100 times the cost of prevention, it says.

As a result of the post-Minamata lesson, chemical accidents or labour injuries in the Japanese chemicals companies are today low by international standards. The average number of lay-offs lasting more than a year, caused by injury, was 0.5 per 1m working hours in 1992, according to the Japan Chemical Industry Association.

While the record has been good over the past 20 years, Japanese environmental policy has barely evolved since the post-Minamata period, argue critics such as Mr Ian Austin, the Tokyo-based director of Japan business development at Dames & Moore, the US environmental consultancy.

The outstanding example is the fate last November of the environmental protection bill, watered down in response to pressure from business lobbies, unwilling to take on extra costs at a time when the yen's strength is harming their competitiveness.

The bill contained a general commitment to a health environment. But the government quietly shelved two controversial provisions, contained in early drafts and supported by the environment agency, for a tax on carbon dioxide emissions and obligatory environ*ment reports* on new industrial projects.

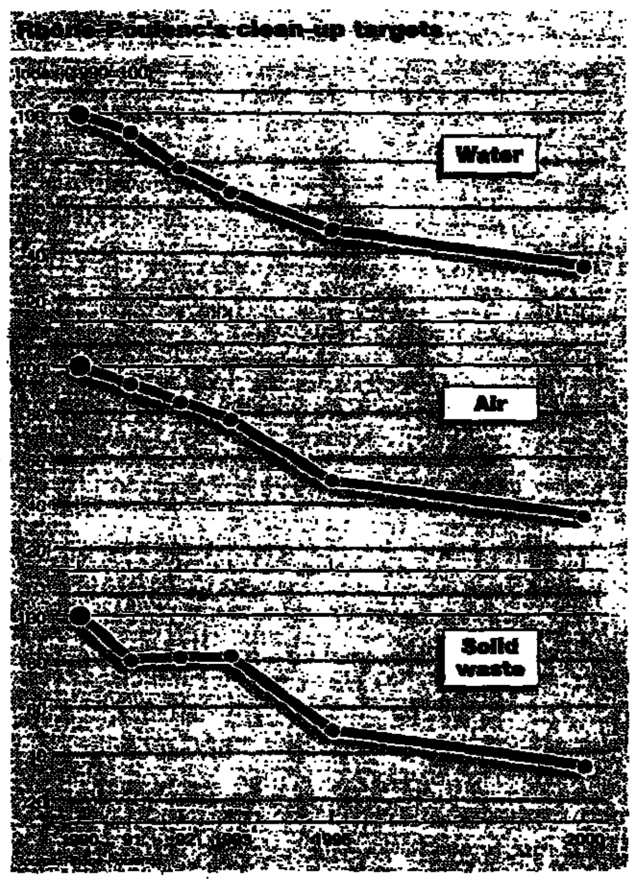
The ministries of international trade and industry, transport, and construction ministries, successfully lobbied for the removal of those clauses on the grounds that they would hamper investment in new plant and further stimulate the already worrying shift of industrial production out of Japan to cheaper foreign locations. A Miti advisory panel warned that a carbon tax would provoke an "international migration of industry".

Instead, the new law calls on "businesses to assess the environmental impact of a project and take proper consideration to conserve the environment". It also says that the government should "make efforts to obtain the understanding and co-operation of the people" when it sees the need to introduce a carbon tax.

Such a tax is certainly not on the agenda of the present government. This is not surprising, since Japan has yet to recover from the most severe recession in the period since the Minamata disaster produced its salutary awakening of environmental policy. It could be a sign of how environmental policies take second place to economic survival during tough times.

■ **Case study:** RHONE-POULENC OF FRANCE

# Staying ahead of the law




Rhône-Poulenc, one of France's largest chemicals groups, has also been one of the most ambitious with respect to environmental policy. In 1992, it set itself a target of reducing emissions in water, air and solid waste by 50 per cent by 1995, taking 1990 as a base year, and by 65 per cent by the year 2000.

According to Mr Jean-Marc Bruel, vice chairman and head of the group's environmental policies since the early 1980s, the setting of fixed targets and the publication of the data represent the second major step in the field of environmental protection. The first step dates back to 1981 when Mr Jean Gandois, then chairman, appointed a manager to deal exclusively with environmental issues.

Since then, Mr Bruel claims that Rhône-Poulenc, along with other French and European chemicals companies, has made significant progress in reducing pollution and protecting the environment. "We have always been ahead of legislation," he says, citing the company's adoption of the responsible care programme, a charter for environmental protection in the industry which was first introduced in Canada. "No other industry has made the kind of progress that has been seen in Chemicals."

He says that efforts in France to respond to the problems of environmental pollution from the chemicals industry have been assisted by an administrative system whereby regional government has the ability to fine and to subsidise polluting industries.

Rhône-Poulenc is itself spending a substantial amount on reducing pollution and increasing safety, despite the constraints of recession and the group's debt burden. Over the past two years, the company has committed FFr3.6bn on environmental and safety projects, the lion's share in France and the US.

But how effective has this expenditure been? The publication last month of its annual environmental report shows a mixed result. "We are on target with respect to water pollution, for air emissions we are a little behind our target, but we can make this up. It is solid waste has proved the problem," says Mr Bruel.

Mr Bruel's conclusions are drawn from a detailed series of pollution and safety indices, audited by the accountants, Coopers & Lybrand, and in line with the format adopted by Cefic, the European chemicals industry federation.

At the end of last year, according to these statistics, the index of water pollution showed a 32 per cent decline from the base year of 1990. "This should enable the goal of a 50 per cent reduction by 1995 to be achieved," he says.

The air index improved last year year by 9.5 per cent, bringing the total reduction since 1990 to 23 per cent. "We are a little behind schedule, but I think we can maintain the target because we will make a big push over the next two years," says Mr Bruel.

In the area of waste, however, hitting the target will be a harder proposition. In 1993, the index remained static, showing just an 18 per cent decline from 1990.

Part of the explanation, according to Mr Bruel, lies in a shift in emphasis, since 1990, towards increased prevention and safety, rather than remedies. "We have put more money into the prevention of accidents," he says. "Why? because when you have an accident you have a pollution that is short in timescale but very significant in its immediate effects."

The stability of the waste index, however, also reflects the conflicts between some of the group's environmental objectives and the priorities attached to the various targets. "We attach the greatest importance to reducing emissions in water," says Mr Bruel. "But when you solve the problem with water, generally you generate some waste."

The stubbornness of solid waste pollution was magnified by the system used by Rhône-Poulenc to calculate the various pollution indices. According to this system, the various pollutants are assigned a coefficient which is determined by their undesirability.

In air emissions, for example, nitrogen oxide is given a relatively high coefficient of 5. In water, salt has a coefficient of a mere 0.001. In 1993, the neutralisation of toxic waste at the company's *Le Havre* plant led to landfill storage of inert residue from calcium sulfate. Because this has a high coefficient of 10, the impact on the solid waste index was correspondingly increased.

Despite the hiccough in the solid waste department, however, Mr Bruel is confident that the objective of a 65 per cent improvement by 2000 is attainable. "The target of a 50 per cent reduction by 1995 will be delayed, but a research programme for clean technologies is underway to correct this trend," the company says.

Clean technologies for the group's final products are also of growing importance in the battle against pollution. According to Mr Bruel, the group is developing an expanding number of products which reduce harmful waste and emissions at every stage of their lifecycle. The *Regent* insecticide, for example, which has been launched by the company, degrades without creating toxins. The Nabion detergent, produced with sodium carbonate and sodium silicate, is completely soluble in water and requires no treatment.

Internal efforts are, however, not the only considerations. The wider economic situation also has a bearing on the levels of pollution produced by Rhône-Poulenc's plants. According to the company's environmental report for last year, the largest single factor behind the improvement in the water index resulted from reduced business activity. The next most important factor was technical progress, which accounted for 4.5 per cent of the improvement.

John Ridding

Germany, with the world's toughest controls, may be having second thoughts, writes **Christopher Parkes**

# Green tide reaches high water mark

Last December, when the German chemicals industry was still wallowing close to the bottom of the worst profits trough since the war, and still wincing from a media onslaught which followed a rapid-fire series of accidents at Hoechst, it was offered a few crumbs of comfort from an unlikely source.

The opposition Social Democrat Party (SPD), in concert with the IG Chemie union, published a position paper on the industry's future. The main recommendations seemed unremarkable: the simplification of environmental legislation and acceleration of planning procedures to facilitate the introduction of "environmentally-acceptable products".

But the paper, personally endorsed by Mr Rudolf Scharping, SPD leader, marked an important development. The senior opposition party, whose attitude towards the chemicals industry had long been fudged by a lingering attachment to the more rigorous environmental policies of the Greens, had shown that it had heard and deemed justified the industry's most serious complaints about the direction of German environmental policy.

The costs of environmental protection are a sore point among chemicals producers in most industrialised countries. But it is the range and complexity of legislation which give the greatest cause for grief within the German industry. Federal laws, arguably the strictest in the world, are overlaid by separate legislation engendered in each of the country's 16 Länder.

The result is a scarcely-penetrable entanglement which generates work for enthusiastic and meticulous bureaucrats and frustration for companies which see their attempts to innovate and regain competitiveness repeatedly bogged down.

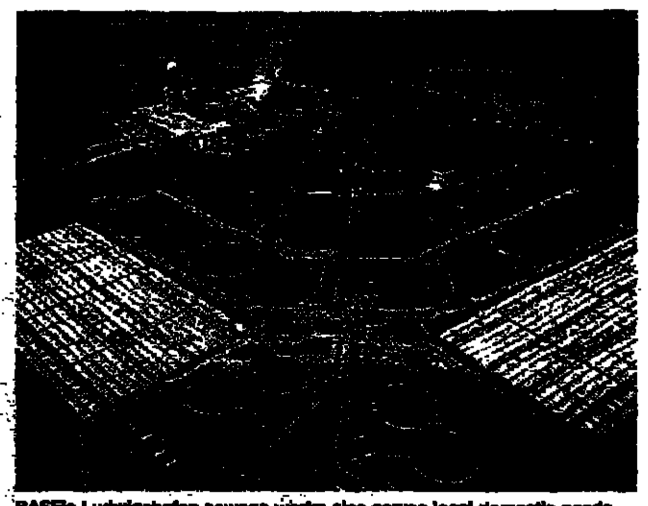
A company seeking to build a new chemicals production plant in the federal republic must observe more than 2,000 laws and regulations. According to industry calculations, the average time taken in Germany to win official approval – be it for planning permission, a new product, change-of-use in existing plant – is 13 months compared with six months elsewhere in Europe.

Mr Horst König, head of research planning at BASF, says the time and costs involved are becoming increasingly critical as competitors race to be the first – or the cheapest – in the market with new products or techniques. R&D projects, even though carried out with no guarantee of success and subsequent profits, were particularly vulnerable, he wrote in a recent article.


Environment minister Töpfer: setting an international example

He provided an example of a new dye intended for the textiles industry where cost-consciousness is especially keen. The dye was especially promising because it was almost entirely absorbed by cotton fibres and left barely any traces in the waste water. However, the manufacturing process generated three by-products. Even though they were used in other processes and never left the plant in their original form, each had to be checked and approved at a total cost of DM200,000, Dr König wrote.

Meanwhile, the net of environmental legislation continues to expand and impinge on Germany's fourth-largest exporting sector. The planned Kreislaufwirtschaftsgesetzt – a catch-all law designed to complete the circle of development, production, use and re-use or recycling for new products – allows for no exceptions. The aim of the legislation is to oblige industry to develop new products and the techniques for recycling them in parallel. According to Mr König, this will apply even to one-off, low-volume manufacture of experimental materials or products even before a market has been found for them.


BASF's Ludwigshafen sewage works also serves local domestic needs

If research and development in Germany continued to be obstructed by indiscriminate restrictions, valuable jobs in research and application technology would be lost, he wrote. Production would inevitably follow and, in the end, so would scientific knowledge. "The widespread exodus of gene technology should act as a warning," he added.

The Bonn coalition has already acknowledged that deregulation has an important part to play in ensuring future growth in the German economy, and last year put forward a wide-ranging discussion paper on the subject which was clearly intended to prepare the ground for change. The SPD's position paper – part response to the now-fading cyclical crisis in the chemicals industry, and part campaign document – showed a similar intent. Whoever wins the forthcoming federal election, there are promising signs of a consensus that more flexibility and less red tape are in order.

On the other hand, there are no indications from any side that German environmental legislation will be made less rigorous. The aim is more to reconcile the demands of the law with the desire to preserve jobs and encourage the evolution of a more specialised chemicals sector as the old, low added-value production drifts increasingly and inevitably abroad.

Mr Klaus Töpfer, the Bonn environment minister, recently proclaimed that one of his aims during Germany's impending European Union presidency, was to establish the EU's "continuously developing" environmental policy as an example to the rest of the world. In consort with his French counterpart, Mr Michel Barnier, he said he would press for higher security and protection standards all round, and more stringent application of existing regulations.

In the future, he said, he expected the four EU membership candidates, Sweden, Norway, Finland and Austria, to strengthen the ranks of the advocates of environmental protection. Europe must come to appreciate that a vigorous environmental policy offered economic opportunities.

It was doubtless coincidental, but on the same day Mr Heinrich von Lersner, president of the federal environmental agency, chose to highlight some of the economic advantages. He argued strongly against the advocates of a "pause" in environmental legislation. His 20 years' experience had taught him that neglect of the environment damaged the economy while investment in its protection almost always paid dividends.

The world market for protection technology was now worth \$285m a year. The US had 18 per cent, Japan 18 per cent, but Germany was still market leader with a 21 per cent share. There was a danger, Mr Lersner noted, that Germany would lose its lead if potential purchasers were put off by warnings that environmental protection was bad for an economy's health.

Communism has left a costly legacy, writes **Anthony Robinson**

# Outdated and inefficient

It's an ill wind which blows nobody any good, and nowhere is the old truism more apparent than in the former communist states of eastern Europe and beyond.

In the four years since the collapse of communism, precipitous declines in output from the old state-controlled heavy industrial and chemical plants have been accompanied by a substantial decline in the level of both air and water pollution. Unfortunately, however, the volume of accumulated chemical, nuclear, metallic and other wastes in the ground, in often poorly constructed and maintained dumps and storage dams and in the seas fed by polluted rivers, remains horrific and lethal, particularly in the former Soviet Union.

In volume terms by far the biggest sources of pollution remain the region's coal-fired power stations, steel mills and refineries of all types.

Over a third of Europe's entire emissions of sulphur dioxide are pour out of a complex of lignite or poor quality coal-burning power stations and chemical plants in the so-called "black triangle" where Poland, the Czech republic and former east Germany meet.

Poland alone expects to spend \$1bn reducing emissions at one of the biggest polluters,

**Many eastern plants were built by the west, but are now very outmoded**

the 2,000MW Turow power station complex, while the German environment minister has promised that the former east German plants will be brought up to EU emission standards by 1996. The German government has also agreed to finance similar environmental improvements at the Prunerow power station just across the border in the Czech republic.

The coal mines are also a potent source of water pollution, especially in Poland where saline water pumped out of the deep mines of Silesia flows down the Vistula and into the Baltic, one of the most polluted seas in the world. The Baltic is closely followed by the Black Sea which is also virtually landlocked and receives the effluent from the Danube and the big rivers flowing through southern Russia and Ukraine.

The chemical industry by comparison is a limited polluter, but this mainly reflects the low level of its development in the former communist bloc and the fact that many chemical, synthetic fertiliser, petrochemical and related plants were put up there on a turnkey basis by western contractors.

Even so many were built before the awakening of environmental consciousness in the West, and even plants built in the 1970s frequently deliberately skimped on smoke abatement, water filtration and other environmental protection equipment. Even when environmental protection equipment was installed, itwas rarely switched on or it became inoperative because of breakdowns and shortages of spare parts.

But environmental protection became a powerful stick with which to beat communist governments in the 1980s and many of the most polluting plants were closed in the first flush of enthusiasm after the collapse of the Berlin Wall and installation of the first post-communist regimes. Given the monopoly nature of the communist production system, however, several of these plants had to be re-opened to ensure minimal supplies of drugs and essential chemicals for other industries.

Lack of investment and poor maintenance left the former East German chemical industry, much of it coal-based, especially vulnerable once German re-unification revealed the combination of low productivity and environmental nastiness. The introduction of D-Mark pricing was the last straw and whole swathes of the industry have simply been wiped out, leaving a huge bill for rehabilitating the polluted land on and around the sprawling acres where the plants once stood.


Trying to catch up: materials research at a Minsk electronics plant

Poland and the Czech Republic also have substantial chemical industries facing similar problems but are spared the additional burden of over-valued currencies. In Romania, where the worst polluters (such as the unspeakable carbon black plant at Copca Mica in Transylvania) have been simply closed down, the over-blown petrochemical and refining industry is working at a fraction of its capacity.

Throughout the region, fertiliser plants, refineries, petrochemical complexes and pharmaceutical plants have either been closed or are working far below capacity. With over-capacity in the west, little money is going into modernisation or on new greenfield sites, although the latter are generally regarded as a much better investment.

The decline in Russian oil production and, above all, the end of the era of cheap Soviet energy and input prices is the main factor which has exposed the uncompetitive nature of most chemical production in the region and led to the lower output and the consequent fall in pollution. Russian statistics show an average 20 per cent decline across a broad swathe of chemical output in 1992 with no sign of recovery to date.

Reliable figures are hard to come by in this area but official Polish statistics show that output of the Polish chemical industry fell 25 per cent in 1990 and a further 18 per cent in 1991 before rising by 7 and 8 per cent in the following two years. But the emission of gases, which fell from 5.1m tonnes in 1989 to 4.1m in 1990 continued to fall even when production started to rise. The statistics show a similar trend in the emission of poisonous dust emissions.

This is only partly due to investment in anti-pollution devices which has remained minimal given the poor economic state of most chemical enterprises. The fall in emissions mainly reflects greater awareness of ecological issues and greater efficiency in the use of fuel and inputs prompted by more rational pricing. Gone are the days of big investment in huge, inefficient and polluting plants to produce basic chemicals from cheap Soviet oil. In future, the emphasis will be on much smaller plants, many of them foreign-owned or using the latest western technology to produce world-quality drugs, detergents, paints and downstream consumer products at greenfield sites governed by EU pollution standards. The forerunners of this new phase are the detergent plants set up in Poland, Hungary, the Czech Republic and elsewhere by Henkel, Unilever, Benckiser and Procter and Gamble.

The risk of court action is increasing, writes **Ian Hamilton Fazey**

# When directors are liable

Alan Bottomley says most directors and senior managers of UK companies are just not frightened enough.

"The legal aspects of caring for the environment need to be taken much more seriously," he warns. "The personal responsibility of directors is going to become an increasingly important area and people running companies need to become much more aware of what they may be up against."

Mr Bottomley is senior partner of Hammond Suddards, one of the "big five" firms of corporate lawyers in Leeds. Many large law firms have set up units of specialists in environmental law during the last few years but what makes Hammond Suddards especially qualified to comment is that ICI outsourced its environmental litigation work to the firm in 1992.

Lawyers hoping for more clients are no different from any other salespeople, so their claims should always be treated with caution, if not scepticism, but there appears to be evidence to support Mr Bottomley's case.

The case is this: fines on companies for pollution offences are having a slow impact; but directors and senior managers carry personal legal responsibility for the actions of a company, its employees and its agents.

Therefore, enforcement bodies are increasingly likely to "go" for individuals and try to obtain large fines against them – or even prison sentences. Mr Michael Shepherd, one of Hammond Suddards' litigation team and a specialist on legal and court procedure, says that in some fields such as waste disposal, gaol sentences have already been handed down.

Many companies have written environmental policies which are meant to show that directors and senior managers take their responsibilities seriously and expect the company's employees and agents to do the same.

Based on precedent in other fields of law, many believe this will protect directors and senior managers if something goes wrong and a pollution offence is committed "down the line" without their knowledge.

Whether a criminal act by an employee or agent is the action of a company depends on his or her state of mind, intention, knowledge or belief, as well as the facts and circumstances.

If the law requires a guilty mind as a condition of an offence, the company will be guilty if the directors and senior managers intended to commit the offence, but not if they had no such intent and the offence was committed by a junior employee who is not an officer of the company.

Tesco v. Nattras in 1972 is the latest precedent of three relied upon in support of this. Here, a supermarket ran out of cut-price chickens being advertised nationally on special offer. The supermarket manager substituted chickens from stock labelled at a higher price and Tesco was prosecuted by a local trading standards officer.

**'Enforcement bodies are increasingly keen to see directors heavily fined or even jailed'**

The case went through the appeal system, where the final decision was that Tesco was not guilty because the senior management had no intent to commit an offence and the local supermarket manager was too lowly in the organisation to make the company liable.

Mr Stuart Bell, a Hammond Suddard lawyer specialising in environmental policy, says this gives many directors and senior managers a false sense of security for two reasons.

The first is that many pollution offences are absolute, and therefore do not require a guilty mind for companies and individuals to be charged.

Mr Bell says most environmental law specialists believe the trend will be for increasingly more pollution offences to become absolute ones. There will be no defence against them, only a plea of mitigation. The company without a well-defined environmental policy will be in trouble.

The second reason he advances is of a discernible trend by legislators – in effect, the government – to make personal responsibility much more important in corporate governance. The Food Safety Act of 1990 gives a clue as to developments.

It says if an offence is proved to have been committed with the consent, connivance or through neglect by a director, manager, secretary, or any other similar officer of a corporate body – or anyone purporting to act in such capacity – the person is guilty and liable to punishment.

Similarly worded sections are now included in the Acts of Parliament covering health and safety at work, consumer credit, company law, financial services, trade descriptions, water resources, planning, fire precautions, crowd safety, insolvency and environmental protection.

This means having a written environmental policy may not be enough. It has to be applied and supervised right up to boardroom level. Procedures also have to work at all times. For example, having an environmental officer acting as internal policeman may not be enough if there is no procedure to cover for his or her holidays.

It means a site foreman cannot turn a blind eye to where an outside contractor dumps a load of waste – nor the directors of the company involved claim that it was nothing to do with them because they did not know. All parties must have taken reasonable precautions to ensure safe disposal eventually took place.

Concerted attempts to stop illegal waste disposal – particularly dumping of toxic waste – are already under way.

"Cowboy" operators who have charged for long haulage to legal dumps, or for digging holes to bury waste, but have then dumped illegally and locally, or at surface level, have been successfully prosecuted recently and gaoled.

Some environmental lawyers believe the directors of companies that hire such operators may be next, "to encourage the others".

An attempt is also being made by the authorities to establish a precedent that will supersede Tesco v. Nattras as far as environmental law is concerned. The case involves pollution of a waterway via an underground culvert on a new housing estate, and whether the directors and senior managers of the company involved can be held responsible for it.

National Rivers Authority v. Alfred McAlpine Homes (Southern) is now in the appeal system. If the NRA wins, environmental law at least will greatly increase the onus on corporate officers for what happens "down the line" – however remote from head office.

Is all this the scare tactics of lawyers trying to drum up more business? Mr Bell warns: "Large numbers of companies have no policy on waste minimisation, waste reduction and waste disposal. Big companies are OK but many medium-sized and smaller ones have no idea at all.

"When you look at the figures, the number of prosecutions is very small compared with the number of breaches. But the number of prosecutions has doubled year on year since the National Rivers Authority came into being in 1989."

Penalties are also likely to be stiffer. Although they are limited to £20,000 and six-month sentences in magistrates' courts, fines are unlimited in the crown court, where gaol terms of up to two years can be imposed. In addition, companies can be made to pay for putting the pollution right – and this may cost much more than any fine. Incidentally, fines and remediation costs are not chargeable against revenue for tax purposes – they come straight out of profits.

Mr Shepherd also says environmental pressure groups are likely to bring their own prosecutions, as Greenpeace inflicted on ICI last year. Greenpeace did not win, but it demonstrated a new avenue for making companies more environmentally responsible.

The question for directors and senior managers is whether they can afford not to take the lawyers' warnings seriously.